



U.S. Department of State FY 2001 Country Commercial Guide: Moldova

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Chapter I: Executive Summary

This Country Commercial Guide (CCG) presents a look at Moldova's commercial environment, using economic, political and market analysis.

The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country commercial guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

Overview of Import Market

Moldova, with a population of 4.4 million (including the breakaway region of Transnistria), is a small open economy heavily dependent on its agribusiness sector. Demand for Western goods is small, although such goods are considered high quality. Demand is stymied by the generally low paying capacity of consumers. Short-to-medium term benefits of the Moldovan market are small for U.S. exporters. Moldova remains a relatively difficult market in which to do business.

Synopsis of the Commercial Environment

Moldova is still in the process of implementing the principles of a free market economy. Although Moldova has achieved substantial progress on the road to reforming the Soviet-based command economy, it is faced with the arduous task of making the existing market-based institutions and laws more efficient. Moldova's commercial environment is heavily affected by the country's excessive foreign debt burden, a struggling public sector and a series of natural disasters which have severely damaged the country's crops. Business in Moldova is undermined by a weak public sector, lack of a coherent body of commercial laws, and uncertainty surrounding the legal status of the breakaway region of Transnistria.

Moldovan business attitude toward the United States

Moldovan businesses view favorably their American counterparts, due to the latter's rigorous business standards and access to cash. Moldovans are generally willing to do joint business projects with American firms. Also, Moldovans look at the U.S. as a source of technology and know-how and oftentimes are willing to offer their own technology solutions. No strong attachment toward locally produced brands is evident, except for a few traditional local products such as juices, wines, and confectionery. Moldovans feel no cold war era prejudices toward Americans.

Leading Business Opportunities

Moldovans are especially interested in Western equipment and technologies for food processing and to a lesser extent packaging. Information technology products are also gaining wider acceptance in Moldova. Agricultural inputs, such as fertilizers and other chemicals, and farming machinery are in high demand in Moldova.

Major Roadblocks To Doing Business

Many of the roadblocks to doing business in the New Independent States (NIS), including Russia, apply to Moldova as well. These include: low consumer purchasing power and limited project financing; an evolving commercial law system; less formal and less rigorous business practices than in the West; an inconsistent legislation and a relatively weak property rights enforcement system. Additionally, uncertainty surrounding the breakaway region of Transnistria is another factor to consider.

Local and Third-Country Competition

Western European firms are very active in Moldova. They sell various consumer goods and equipment. Turkish, Eastern European, Russian and Romanian firms are among Moldova's main trading partners. Italian and Turkish firms supply to Moldova various leather and clothing items. Italian, French, Turkish and German firms are among the prominent foreign investors in the country in such sectors as wine making and leather processing, mobile telephones and clothing.

Some Keys to Success

Early market entry is important. However, such a move is justified only if a proper assessment of market and other conditions is done. Employing one of the several Western consulting and advertising agencies operating in Moldova is crucial for minimizing risks. Until conditions generally improve, a piecemeal approach to trading with and investing in Moldova is advisable.

U.S. Embassy Commercial Section and BISNIS

The Commercial Section of the U.S. Embassy in Chisinau, Moldova, in cooperation with the U.S. Commerce Department's BISNIS, helps U.S. exporters and investors to obtain better information about the Moldovan market. Occasionally, the U.S. Embassy in Chisinau and BISNIS will organize trade promotion events, offer counseling and agent/distributor search services and, where appropriate, project-specific advocacy. It is difficult for the Embassy and BISNIS to advocate for U.S. companies doing business in the breakaway region of Transnistria.

Country commercial guides are available for U.S. exporters from the National Trade Data Bank's CD- ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country commercial guides can be accessed via the world wide web at <http://www.stat-usa.gov>, <http://www.state.gov>, and <http://www.bisnis.doc.gov>. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. Exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-TRAD(E) or by fax at (202) 482-4473.

Chapter II: Economic Trends and Outlook

A. Major Trends and Outlook

1. General

Since independence, and notwithstanding the difficulties imposed by its small economy, a war in Transnistria and the collapse of the Soviet trading system, Moldova has followed a strong reformist strategy. However, in the 1990's Moldova has experienced perhaps the sharpest GDP contraction in the Commonwealth of Independent States (CIS), with the result that its economy by the end of 1998 was around one-third of its 1989 size. This collapse can be attributed to various economic misfortunes: the GDP decline of 29 percent in 1992 reflected the war with Transnistria, and the decline of 30.9 percent in 1994 reflected a severe drought which all but wiped out the important grape crop.

In 1999 GDP fell 4.4 percent to ML 12.2 billion (approximately one billion U.S. dollars). Official GDP estimates made at the beginning of 2000 indicated a GDP growth of 2

percent. However, due to a prolonged drought in the spring of 2000 and inability of farmers to finance irrigation works, independent experts revised GDP forecasts to zero growth. Given the severity of the drought and the significant losses suffered by farmers, it is possible that GDP may undergo yet another contraction.

The country's economic health is also affected by a halt in loan assistance from the International Monetary Fund and other international donors. The disruption in IMF support was caused by the Moldovan Parliament's failure to approve privatization of the tobacco industry and several wineries. With Moldova facing severe budget constraints and a large foreign debt burden relative to GDP, the country's short-to-medium term macroeconomic stability is cause for concern.

2. GDP Growth

The 1999 GDP performance, which fell 4.4 percent, is a reflection of the 1998 regional crisis and the slow pace of economic recovery. Also in 1999, industrial output fell 9 percent, while agricultural output decreased 8 percent. However, the last quarter of 1999 saw some signs of recovery in industrial output, which materialized in the first quarter of 2000. Thus, in January-March 2000 industrial output increased 3.3 percent year-on-year in real terms. A rise in output was recorded in all major industrial sub-sectors. On the contrary, agricultural output in the first quarter of 2000 lagged behind industrial output with the output index at 91 percent compared with the first quarter of 1999, mostly due to a 9 percent drop in animal husbandry production.

3. Inflation

The impact of the Russian crisis on the country's trade relations with Moldova led to intense pressure on the Moldovan currency over the last quarter of 1998 and the first two quarters of 1999. The previous rate of ML 4.7 to one U.S. dollar had dropped to ML 10 in 1998 and to ML 11.45 in June 1999. A further decline to ML 12.65 by June 2000 took place. This meant an effective doubling in the price of many imports, including dollar-denominated imports like oil. The 1999 cumulative inflation rate was 43.8 percent, almost double the rate in 1998. Inflation has slowed significantly in 2000. Based on the January to April actual inflation rate, the estimated rate of inflation for 2000 stands at 19 percent, well within the Government's 28 percent forecast.

4. 2000 Budget

In April 2000, the Parliament approved the Budget for 2000, which envisaged revenues of ML 3.8 billion (USD 300 million), equivalent to 31 percent of the actual 1999 GDP, and expenses of ML 4.2 billion. Given the lack of financial assistance from the IMF and the Parliament's reluctance to approve key tobacco and winery privatization laws, it is unclear how the Government will meet the shortfall of about ML 800 million (USD 63.5 million) in spending commitments. The Government hopes that the shortfall will be met by a better tax administration. According to the Ministry of Finance, average daily budget revenues for January-May 2000 are some 85 percent up compared with the same

period of 1999. This gives hope that despite adverse conditions, the Government will be able to meet most of its spending targets.

5. Credit Ratings

Western institutions believe that Moldova's reforms are an indicator of the country's further growth and as a result, the major ratings agencies did not decrease the country's rating immediately after the crisis of fall 1998. However, in the spring of 2000 Moody's Investors Service downgraded Moldova's foreign currency rating for bonds to B3 from B2. Moody's also downgraded to B3 the rating of a USD 75 million eurobond issue due to mature in 2002. The ratings for foreign currency bank deposits and that of local currency bonds remain unchanged at Caa1. The outlook for all ratings is stable. In november 1999, another international credit rating agency, Fitch IBCA, downgraded Moldova's long-term debt in foreign currency to "B minus" from "B". The rating for short-term debt in foreign currency remained unchanged at "B". Fitch IBCA is due to revisit Moldova's credit rating in the summer of 2000.

B. Government Role in the Economy

1. General Goals

The Government's vision is to move Moldova from its current poverty level by gradually transforming the country in the next century into an open market economy integrated into Europe, while maintaining its traditional markets in the NIS. The current Government is implementing a strategy called the "Strategic Orientations for the Socio-Economic Development of the Republic of Moldova through the Year 2005," which was inherited from its predecessors. The strategy sets out longer-term development objectives, which have been translated into a work program of short- and medium-term policies to reach these objectives.

Moldova's development objectives are the following:

- to stabilize the core institutions of the state which guarantee a democratic development of society, the rule of law and constitutional rights, and the freedoms and obligations of citizens;
- to create adequate conditions for development of the market economy in order to ensure employment and revenue growth, and to be competitive on world markets;
- to deepen agriculture and energy reform;
- to create an environment which encourages private investment;
- to bring Moldovan society in line with European standards and the norms of social equity and security;

-- and to prevent production and living standards from falling to a level which could generate social conflict and national strife.

2. Budget Priorities

Creating the engine for sustainable growth is an imperative for Moldova and the key to longer term macroeconomic stability. Achieving long-term budget balance is a function of correlation between public spending and economic needs and a more efficient use of public funds. The Government's latest imperative is to fight poverty with the help of international donors.

The Government faces the formidable task of meeting its onerous financial commitments to foreign creditors in the face of a disruption in international financial assistance. With the privatization of key tobacco and wine sector enterprises put off for an indefinite period, the Government's only viable choice appears to be a tighter tax administration. In early 2000, the Government succeeded in rescheduling some of the gas-related debts to Russia's Gazprom. Also, in 2000 the Government restructured some of its other foreign debts, with USD 126.4 million scheduled for payment in 2000.

Arrears to the energy sector continue to increase, due in large part to non-payment by fiscally strapped institutions, especially at the local Government level. The Government has tried to ensure sufficient funding and power usage measures in the 2000 Budget, but further arrears could result if budgetary revenues falling short. The authorities realize that any future debt restructuring package would have to be based on a credible, time-limited plan to reverse the buildup of external energy arrears.

The goal of reducing the budgetary arrears beginning in 2000 is likely to be realized only if public sector restructuring accelerates and the external environment improves.

The Government is emphasizing debt management, aid coordination and foreign direct investment in order to mobilize its resources. It is also intensifying efforts to promote export growth and diversification by strengthening the trade regime, completing the process of WTO accession, and negotiating a new free trade agreement with the European Union.

3. Private Sector Development

The Government's program stresses the need to promote private sector production of competitive goods and services. The Moldovan authorities understand that foreign investment is essential for efficiency and competitiveness. The Government is working with the donor community to develop a viable micro-credit system based on a participatory approach.

The authorities are working to create a positive environment for private investment. This involves legal and institutional reforms to level the playing field, promote competition, protect property rights, strengthen the court system and ensure transparent regulation. A

modern infrastructure and active markets for urban land and real estate are important to attract private investment.

4. Public Sector Reform

Corruption: the importance of a strong anti-corruption strategy has been the subject of recent discussions in Moldova. As in many NIS countries struggling to introduce market forces and establish the rule of law, corruption takes many forms in Moldova. These include smuggling, tax evasion, abuse of office by poorly paid civil servants, and informal fee-for-service schemes in the social sectors. The Government has launched numerous initiatives to combat corruption. While in the past these efforts have dealt mainly with the symptoms of corruption, there is clearly now an appreciation of the need for a more systemic approach involving institutional reforms, civil service reform, legal and judicial reform, and programs to strengthen public oversight and civil society. At the present moment the Government faces the difficult problem of creating an efficient and corruption-resistant public administration within tight budget constraints.

Planned reforms: Moldova plans to reform the public pension system, which links contributions directly to benefits and gradually raises the retirement age. A legal framework for private pension funds is also being developed. In education, the Government intends to complement the introduction of a modern, unified curriculum with a program to reform the structure and management of public education. The authorities are initiating a restructuring of the public health care system, which will involve consolidating existing facilities, introducing an official fee-for-service scheme, and partially privatizing health services. The Moldovan Government acknowledges that the social assistance system is in need of fundamental reform. Most of the required legislation to underpin this reform has already been prepared.

Long-term goals: In the long term, Moldova plans to modernize the state and restore public confidence in state institutions. Decentralization of authority to a reorganized and strengthened system of local Government is indispensable for social sector reform, since most social services are delivered by local authorities.

C. Privatization

1. General

Other priorities for Moldova in 2000 include restructuring and privatization of the state industrial and agricultural property. After completing privatization for Government-issued bonds, which began in 1992, the Government is now carrying out privatization for cash. Cash privatizations have had less success: the completed international tenders of the Moldovan telecommunications company Moldtelecom in 1998, and the tobacco concern Tutun in 1996, were canceled at the last minute. Over 1998-99, 300 enterprises were sold through auctions and international tenders, generating revenues of ML 188 million (USD 24 million).

The Government's program also aims to restore financial viability to the energy sector and ensure a reliable and competitive energy supply to all paying customers. The program has already partially materialized as the Government privatized three electricity distribution companies and is currently conducting the sale of the remaining two electricity distribution companies and power generation assets. It has also initiated work on a plan to restructure district heating companies, including through bankruptcy proceedings if necessary.

Results: Privatization revenues have been relatively low due to unrealistic price expectations and the unwillingness of the Government to lose management control. In addition, since August 1998, the Russian crisis has had a strong impact on Moldova. However, the Government has recently showed flexibility in establishing prices on the condition that serious investment commitments are to be made in the acquired company, and all its debts are to be assumed. As a result, 15 companies have been sold to foreign and local strategic investors, generating revenues of ML 50 million (USD 4.37 million) and direct investment of ML 87 million (USD 7.6 million), DM 82 million, and USD 57.5 million. Leading Western companies were involved in six out of the 15 successful privatization programs.

The most successful privatization in 1999 was the sale of three out of five power distribution companies to the Spanish firm Union Fenosa for USD 25.3 million and investment commitments of approximately USD 70 million. Other successful privatizations by foreign investors include: cement producer Cement S.A. by France's Lafarge (a 52 percent stake); pharmaceuticals producer Farmaco S.A. by U.S.A.'s Europharm, Inc. (an 85 percent stake); leather processing company Piele S.A. by Italy's Esastampa (a 60 percent stake); clothing factory Balteanca by Germany's Steillmann Gruppe (a 65 percent stake) and tour operator Moldova Tur S.A. by Israeli Avi-Waks Ltd. (over 80 percent stake).

The size of the private sector has grown considerably over the past few years. As of mid 1999, an estimated 60 percent of the economy was in the private sector. Industries are more than 60 percent private, with agriculture at 86 percent, retail sale and services 70 percent, and construction and transport almost 44 percent.

Currently, the Government is finalizing the process for the privatization of several major Moldovan companies, including Agromecanica Holding, which includes Moldova's only tractor manufacturer; Tirex-Petrol, an oil wholesale and retail company; Mezon S.A., an electronics manufacturer; several furniture manufacturers, two power distribution companies and three combined heat and power generation enterprises. In the following half a year or so, the Government plans to hold again privatization tenders for 96 percent in Viorica Cosmetic, a perfumery and cosmetics company, 60 percent in Zorile S.A., a leading shoe manufacturer, and 100 percent in Agromecanica Holding, which for various reasons were not privatized the first time they were put up for sale. Other lower profile companies will also be offered for sale.

Additionally, the privatization of Moldova's telephone monopoly Moldtelecom has been put on hold. The Government feels that it could obtain a better price provided that Moldtelecom increases its telephone line density and international market conditions improve. The Government's intent is to offer Moldtelecom for sale under a new privatization plan, which is yet to be approved by the Parliament, starting with the year 2001.

2. Land Privatization

Given the importance of the agricultural sector for Moldova, land privatization is a key issue for the Government. The authorities are privatizing land through an equitable and transparent system of direct cash grants to private farmers. More than one million private farmers will receive legally recognized land titles and property shares. The legal basis for land trade has been established and taxes on land transactions have been lowered.

Results: by June 2000 over 840 farms of the planned 1,000 were privatized and 1.2 million land titles issued to individual farm owners. Excluding land held by individuals, which continues to be part of collective farms, private farming is estimated to cover about 23 percent of agricultural land.

Land has been tradable on a restricted basis since late 1997 and can now be used as collateral, although in reality problems in determining land value have limited its use in commercial transactions. For this reason, evolution of a functioning land market has been slow, which has in turn held back much-needed reforms in the agricultural sector. Reversing this trend remains one of the Government's most pressing priorities.

There are still some restrictions on transactions for agricultural land; for instance, foreigners are not allowed to purchase it.

D. Balance of Payments Situation

1. Trade Balance

In 1999, the decrease in the value of the currency impacted strongly on Moldova's external trade. Dollar-denominated imports decreased 42.6 percent versus 1998, while exports fell only by 17.7 percent. This resulted in a trade deficit three times smaller than in 1998 and even 1997, reaching usd 123 million. Imports fell due to a devaluation of the Moldovan currency over the first half of 1999, while lower-than-usual exports were due to the still-adverse economic conditions in Russia and other NIS states, Moldova's main export markets. Total exports value fell to a large extent due to lower prices, which on average were 25 percent below the 1998 level. Unit exports in 1999 did not change significantly. To be noted is the visible pick-up in foreign trade in the second half of 1999, which continued well into the first quarter of 2000.

Reduced foreign trade caused a precipitous fall in the 1999 current account deficit to USD 22.75 million, after it reached USD 322 million in 1998.

2. External Debt

One of the country's biggest challenges will be tackling its external debt, which by the end of 1999 amounted to about USD 1.0 billion. This is slightly lower than the 1998 level. However, as a share of GDP the country's foreign indebtedness increased from 65 percent in 1998 to over 90 percent at the end of 1999. Moldova had been due to repay an estimated USD 237.8 million over 1999, of which USD 204.2 million were actually paid. During 2000, a further USD 126.4 million, equivalent to 10 percent of Moldova's GDP, becomes payable. The country has made some dramatic efforts to stabilize the situation, including handing 50 percent ownership of its gas lines to Russia's Gazprom, one of its biggest creditors. Moldova also redeemed bonds worth USD 140 million in order to pay off part of its Gazprom debt. In mid 2000, Gazprom agreed to restructure USD 90 million that Moldova owes it for gas. However, Moldova continues to owe that organization approximately USD 332 million, not including the USD 530 million that is owed by Transnistria.

E. Principal Growth Sectors

1. Agriculture

Agriculture represents the basis of the Moldovan economy, comprising 20 to 30 percent of GDP in different years and providing employment for about 42 percent of the population. Agricultural production accounts for 75 percent of the country's total exports. This specialization in agricultural production is due to favorable climatic conditions and higher than average soil fertility. 75 percent of the total territory is agricultural land and over half of the population lives in rural areas. Various products such as cereals, sunflowers, sugar beets, potatoes, vegetables, tobacco, fruits and grapes grow in Moldova. In 1999, harvest of cereals (principally wheat and corn) and legumes decreased 12 percent to 2,180 thousand tons from a year earlier. At the same time, sunflower yield increased 42 percent to 142 thousand tons. Output of fruits and berries decreased dramatically from 367 thousand tons in 1998 to 138 tons in 1999 due to spring frosts. Grape yield increased 35 percent to 462 thousand tons.

Meat output decreased 6 percent largely due to unfavourable livestock breeding conditions. The most notable decline in livestock count affected pig farms, with head count down 60 percent.

Moldova benefits from chernozem, a fertile black earth, that covers 75 percent of its soil area. However, the sector has been adversely affected in recent years by droughts, frosts, and floods. Adverse weather conditions have been compounded by a shortage of inputs and raw materials. This led to more intensive farming techniques, in turn lowering the productivity of soil by 35 percent, according to some estimates. Thus, the sector

continues to receive Government subsidies and tax incentives. Before being introduced, agricultural subsidies were a subject of negotiation between Moldova and the World Trade Organization.

The total farmed area in Moldova is 2.6 million hectares. About 67 percent is farmed by individuals and cooperative farms. Over the next few years, private farming is to increase as a result of the national farm restructuring program. By the end of 1999, some 429 thousand farmers were land owners.

2. Manufacturing

According to official statistics, Moldova's industrial output measured in comparable prices, decreased by 9 percent in 1999 compared to 1998. The most significant decline was recorded in beverages, wood processing, machine building, cannery, and sugar production industries. Moldovan industrial development was directly affected by the financial crisis in the NIS countries and in particular, in Russia. The low incomes of the Moldovan population and introduction of the value-added tax on imported raw materials also affected domestic industries. In the period January to May 2000, industrial output grew by a healthy 36 percent in current prices, raising hopes for an economic rebound. Currently, the Government continues to work on developing measures to support the sectors, speed up the reorganization process, and stimulate the financial growth of enterprises.

Food processing: Moldova used to be one of the main suppliers of fresh and processed fruits and vegetables to the Soviet Union. Since Moldova's transition to a market economy, this sector, like almost all of the Moldovan economy, met with difficulties. However, the apple juice production sector is expanding, including concentrated apple juice. Many apple processing plants use modern juice packing equipment.

Wine: wine represents a major product of Moldova's economy, with exports in a good year accounting for up to 50 percent of the total export income. The wine industry has also been a major area of foreign investment. However, it still needs substantial amounts of money to recover from the anti-alcohol campaigns conducted between 1985 and 1991 and from the general under-investment that has characterized the industry since then. There are about 110 wine bottling lines with a processing capacity of 370 million liters a year. Grapes are collected from 170 thousand hectares of vineyards, an area broadly the same size as Bordeaux in France, but capable of producing a full range of red, white, and sparkling wines. After a good year in 1996, unseasonable weather substantially decreased the grape harvest in 1997: only 180 thousand tons of grapes were harvested, which is around half the 1996 grape harvest. The 1998 harvest was 339 thousand tons, while that in 1999 was 462 thousand tons. In 1998, Russia accounted for 85.6 percent of wine export sales. Moldova's wine growers continue to view this as their most important market, despite the 1998 crisis. However, Moldova exports wine into many Western and Asian markets such as the United States, Canada, Western European countries and China.

Of the 50 million liters of wine produced in 1999, 95 percent were exported, mostly to Russia, Ukraine and Kazakhstan.

Sugar beets: sugar beets are another important crop. The country has the production capacity, although with outdated technology, to process over 3 million tons of beets annually. There are 10 privatized sugar beet enterprises in the north of the country, members of the Association of Sugar Refineries. About 1.8 million tons of beet are processed into 230 thousand tons of white sugar each year. 1999 saw a decline in sugar beet harvests as well as in processed sugar output. 1999 white sugar output was only 94,000 tons.

Dairy: In 1999, milk output in the country fell by over 20 percent to 25 thousand tons. Output of cheese remained unchanged at 1.1 thousand tons, while that of butter decreased 27 percent to 1.9 thousand tons. A range of new dairy items were marketed during 1999. Out of 10 dairies in Moldova, Incomlac, located in Balti, and Alba, located in Hincesti, are the biggest. Starting in 1997, Alba strengthened its position with a significant American investment.

Light industry: Much of the light industry is equipped with modern machines and some plants have formed joint ventures with foreign companies, mostly from Western Europe. More investment is needed to widen the raw materials base and to find new foreign markets. The industry produces cotton cloth, industrial carpets, natural and artificial silk and natural and artificial leather goods. Textile and knitwear companies are among 39 listed by the Government as prime companies likely to attract Western investors. The 1999 output of the light industry amounted to 221 million lei (USD 21 million). To a significant degree, clothing and other light industry manufacturers rely on offering assembly/tolling services to their Western partners. The most prominent Moldovan clothing producer is Ionel, which does tolling services for firms from a number of countries, including U.S. and Canada. Some of the other successful producers in this sector are: Balteanca (clothing), Artima (producer of a variety of bags), Covoare Ungheni (ornamented carpets) and Zorile (footwear).

Tobacco industry: The tobacco industry remains to be an important contributor to the state budget. During Soviet times, the republic produced 40 percent of the USSR's annual crop - at its height, 135 thousand tons, equivalent to 10 billion cigarettes a year. The industry consists of eight dehydration plants and the Chisinau Tobacco Factory, which can produce 9.1 billion cigarettes a year. In 1999, cigarette production was 8.68 billion, 1.17 billion more than in 1998. The Moldovan market absorbs the lion's share of the plant's output. Moldova has failed to adopt the normative acts required for the privatization of tobacco companies as agreed upon with the IMF. A Moldovan-Turkish joint venture based in Ceadir-Lunga, Moldova's south, announced plans to start producing cigarettes in September of 2000.

Construction materials: the sector comprises about 50 companies that use local raw materials. Annual production capacities in Moldova are the following:

Cement - 2.5 million tons; concrete blocks and items - 2.2 million cubic meters; asbestos - cement pipes and coupling parts - 3 thousand kilometers; gypsum - 110 thousand tons; bricks - 254 million pieces; stone blocks for construction - 460 million pieces; linoleum - 4 million square meters. This branch of industry is expanding in two directions: through increased export of construction materials (cement, gypsum, ceramics) and through investment in civil engineering.

Metal processing: the metal processing sector is represented by the only Moldovan metallurgic plant located in Ribnitsa, a city in the breakaway region of Transnistria. Commissioned in 1985, the plant annually produces one million tons of steel. About 95 percent of its output is exported.

3. Services

Insurance services: Insurance services are becoming more and more important in Moldova's market economy, although statistics show that less than 1 percent of net revenues are spent for insurance in Moldova. At the beginning of 2000, there were 46 licensed insurance companies. In 1999, insurance companies collected a total of ML 101.3 million (USD 9.65 million) in insurance premiums, 5 percent up from 1998. Sixty-six percent of the insurance premiums collected were paid out as damages. Generally, in 1999, insurance companies earned aggregate net profits of ML 9.6 million (USD 0.9 million) on total revenues of ML 182 million (USD 17.4 million). Few insurance companies are insuring agricultural crops against natural disasters. There is a demand for life, accident and health insurance services, non-life insurance services, and reinsurance and retrocession services.

The largest foreign investment in Moldova's insurance sector was made in October 1999 by QBE, an Australian insurer, which invested USD 5 million in Moldova's largest insurance company ASITO.

Legal services: As Moldova passes new laws and regulations, Moldovans are in increasing need of legal advice, and in many cases are unable to find expert assistance in these areas. As a result, legal services are unquestionably a growth industry in Moldova. A license issued by the Ministry of Justice is required to provide legal services. A licensed lawyer can provide all legal services, except representation in criminal proceedings, which is permitted only to sworn solicitors. There are several U.S. Law firms active in Moldova: KPMG Legal and Taxation Services, which provides legal and taxation consulting, and the law office of Romney Wright, P.C., which provides assistance with visa document preparation. Brodsky Uskov Looper Reed & Partners is a U.S.-Moldovan legal partnership which has represented a number of foreign clients in Moldova. The American Bar Association is also active in Moldova as the U.S. Agency for International Development (USAID) contractor for Moldova's Legal Reform Project.

Communications services: Due to Moldova's poor telecommunications infrastructure, more and more private companies are investing in these areas: mobile telephone services in the GSM-900 standard; business network services; packet-switched data transmission services; telegraph and telex services; facsimile services; private leased circuit services; electronic mail; voice mail; and code and protocol conversion. Moldova has 16 Internet service providers that are active throughout the country. An encryption technologies firm named decart is the only such firm on the market.

Construction: in January-September of 1999, 128.3 thousand square meters of residential housing, representing 1,269 apartments, was built in Moldova, according to the Ministry Of Environment And Territorial Development. This is 32 percent lower compared with the same period of the previous year. Currently, 140,000 Moldovan families are looking for a place to live. The first apartment building financed through a mortgage arrangement was completed in Moldova in December 1999. According to the arrangement, individuals make an initial payment of 45 percent of the planned cost of housing to the Chisinau Municipal Mortgage Agency (Amic S.A.), while the remaining 55 percent is paid on a prorated basis during a period of up to ten years. The interest rate applied to the unpaid amount is eight percent. The second apartment building financed through such a novel arrangement was completed in April 2000.

F. Infrastructure

1. Telecommunications

Moldova has an under-developed telephone system with only 15.3 percent of individuals connected to the national network. There is an acute shortage of pay phones, and many rural areas are without service. Direct telecommunication lines link Moldova to all NIS countries, Romania, Bulgaria and Greece. Lines to the rest of the world are supported via satellites through two transit telephone exchange units located in Montreal, Canada and Copenhagen, Denmark.

Moldtelecom, the national telecommunications company, is currently upgrading its system. It has signed agreements with a number of Western companies including Denmark's Great Northern Telegraph (GNT), which is investing USD 10 million of the USD 17 million cost of installing an international digital switch system and installing fiber-optic technology between Cahul and Briceni. GNT will recoup its investment during the operation of the system over a period of 13 years. The Cahul-Briceni link, which runs through 23 districts and took more than two years to build, connects Moldova's telecommunications system to those of neighboring countries. Moldtelecom plans to upgrade new lines including those from Balti to Ungheni and Nisporeni, but continues to face a shortage of capital. The Government intends to sell a controlling interest of Moldtelecom starting with the year 2001.

One of Moldova's largest investments was made in telecommunications. On October 1, 1998, Voxtel, a consortium comprising one French, one Romanian and two Moldovan

companies, began to provide mobile telecommunication service in the Gsm-900 standard. The company plans to invest USD 65 million in its network up to the year 2007, of which USD 25 million will be provided by the shareholders, USD 10 million by the International Financial Corporation (IFC) of the World Bank, and the remaining USD 30 million by a consortium of Western banks. By that time, Voxtel expects to have 150 thousand clients. Voxtel's services are now available throughout Moldova. The French venture has entered into roaming service agreements with dozens of companies from a number of countries. A second mobile telephony services operator, Moldcell, unveiled its service in April 2000. A Turkish-Moldovan joint venture, Moldcell is currently offering its services in Chisinau and Balti and has plans to cover southern Moldova as well. Currently, there are about 40,000 users of mobile telephones in the country.

2. Transportation

Roads: Moldova depends on its road transport network to ensure both internal movement of products and the export of agricultural goods. Many roads are being upgraded, including 238 kilometers of main highway, under a USD 28.6 million loan from the EBRD. Automobile, bus and truck transport accounts for most of the local transportation, which is 96 percent of cargo movement, and more than 85 percent of passenger travel.

Trains: the Moldovan railway system accounts for 95 percent of transborder shipments and extends to 1,318 kilometers.

Air: Air transportation is provided by three main airlines: Air Moldova International and Moldavian Airlines, private air carriers, and Air Moldova, a state company with a 49 percent German investment. Airlines flying to Moldova include Tarom (Romania), Transaero (Russia), and Tyrolean Airlines (Austria). There are connections with 25 foreign cities and with more than 25 foreign airlines. The Chisinau Airport was built in 1974 and currently receives 16-18 planes a day. In June 2000, a Turkish company finished the reconstruction of the Chisinau International Airport under a contract with the Moldovan Government and funding from a USD 12 million EBRD loan. As a result, the airport capacity increased to 400 persons per hour. By 2010, the airport will be able to handle 605 thousand passengers yearly, versus only 196.5 thousand passengers in 1999.

Water: River transport is used for merchant shipping on the Nistru river, as well as for the transportation of tourists and local cargo. In early 1995, the Moldovan Government established Terminal S.A., a joint Moldovan-Greek venture to build and maintain an oil terminal in Giurgiulesti on the Danube river in Moldova. The Giurgiulesti facility will increase Moldova's ability to import oil products and thus reduce their cost.

G. U.S. Economic Assistance

As the principal U.S. agency responsible for providing technical support to ease the transition, the U.S. Agency for International Development (USAID) has been working as

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a partner with Moldova since 1993. USAID has delivered over USD 226 million to assist Moldova's future growth and stability.

Following are some aspect of USAID commercial-related work in Moldova:

Land reform: assisting farmers and local authorities in understanding their rights, options, and responsibilities in the de-collectivization process, providing technical support for the issuance of legal ownership to non-agricultural land, liquidation of farm debt, and the development of a regulatory structure to support the emergence of a land and real estate market.

Privatization of strategic industries: In coordination with the World Bank and IMF assistance to Moldova, the USAID Privatization Program also extends to the energy sector, telecommunications, and some of Moldova's largest wineries and grain elevators

Commercial law: Moldovan commercial law is a confusing patchwork of narrow statutes and an outdated civil code. With USAID experts a draft civil code has been developed which follows the current European practice of incorporating commercial law provisions.

International accounting standards: In 1998 the Moldovan Government required that financial statements conform to International Accounting Standards based on new Moldovan National Accounting Standards. USAID has trained over 1,000 professors and practitioners in these standards, designed an undergraduate curriculum in accounting, and supported the development of a Moldovan accounting association .

Agribusiness partnerships: The agribusiness partnership program encourages U.S. businesses to invest in Moldova by providing training, consulting and commodity support. The program also supports private farmer commercialization activities and a network of farm service centers/farm stores to provide farmers access to inputs, technology, credit, and market information.

Chapter III: Political Environment

A. Political Overview

Moldova gained its independence from the Soviet Union in 1991. In 1994 it adopted a constitution which provides for a multi-party representative Government with power divided among a president, cabinet, parliament, and judiciary. President Petru Lucinschi began his four-year term in January 1997. In the March 1998 parliamentary elections, four center and center-right parties won sixty-one seats and formed a coalition Government. The Communist party won the remaining forty seats and is in the opposition. There have been two changes of government since the election, most recently in December 1999, when the Moldovan Parliament voted in a new Government headed by Prime Minister Dumitru Bragis, after the dismissal of the Sturza Government.

B. Political Issues Affecting Business Climate

1. Separatist Region of Transnistria

Moldova remains divided, with a separatist Transnistrian region along the Ukrainian border controlled primarily by ethnic Slavs. The Organization for Security and Cooperation in Europe (OSCE), the Russian Federation, and Ukraine act as mediators to resolve the conflict. The two sides have generally observed the cease-fire of July 1992, which ended an armed conflict between them, but progress toward a comprehensive settlement has been slow at best.

The separatist regime of Transnistria heavily affects the business climate in the region. Few business entities located in Transnistria are officially registered with the Moldovan authorities. The region is heavily used for various fiscal evasions while importing and exporting goods to the NIS region. Post assistance for American business located in that region is also limited. It is difficult for the U.S. Embassy to advocate for U.S. businesses with the Transnistrian authorities and is not always able to provide regular consular protective services (in case of arrests, for example).

2. Gagauzia

A Christian Turkish minority, the Gagauz, enjoy local autonomy in the southern part of the country. Hailed as an example of a successful resolution of inter-ethnic disputes, the Gagauz Autonomy has been lately arguing with the central Moldovan Government on a number of issues, including: fiscal autonomy; the right to control privatization of assets within the Gagauz territory and hence privatization proceeds; and, the right to open trade representative offices in other regions, including in Moldova's breakaway region of Transnistria. The Government has taken constructive efforts in finding acceptable solutions for the parties involved.

C. Civil Society and Business Dialogue

Moldova has made substantial progress in its transition to a democratic and civil society. The business-to-government dialogue has had a tremendous boost under the last two governments. It has become customary now for the Prime Minister and cabinet members to convene with main industry players to discuss Government policy in such areas as taxation and regulation. Meanwhile, the Government has to improve the environment for small and medium sized businesses that remain largely unprotected from government red-tape and corruption.

Business-to-business dialogue is strong in some sectors. However, few powerful industrial groups or associations exist that have the power to influence Government policies or market conditions. Major oil importers have joined into an association that lobbies with the Moldovan Government. Another influential group is the Producer's

Association of Moldova that represents about 200 major Moldovan companies from a variety of industries. The association has been successful in securing certain tax incentives which would probably not be possible without its members' joint efforts. Another venue for improved business-to-business communication is the Trade and Industry Chamber of Moldova that unites about 800 members. The chamber has been successful in organizing many foreign trade missions, which were not without success.

The business-to-business dialogue would probably need to be stronger in the oil retail market, pharmaceuticals, and information technology. A case in point is the recent disruption in the grain supply and baked goods markets, where insufficient business-to-Government and business-to-business coordination have resulted in periodic grain and, consequently, bread shortages.

D. Relations Between the Central Executive and State Authorities

Moldova conducted its most recent local Government elections in May 1999. The elections, accompanied by a redesign of the administrative territories into ten judets (counties) and two regions with special statuses, were conducted in a largely transparent and democratic way as acknowledged by international observers. The new administrative redesign, which is generally in line with the World Bank recommendations, has also been meant to make the respective territories economically more self-sustainable and to attribute more power to local Governments.

Generally, there is good coordination between the Central Government in Chisinau and local governments in the regions. From time to time, few minor misunderstandings in the central-local government relationship occur, such as the use of appropriated funds for purposes other than the ones indicated or the improper execution of some Central Government orders. Generally, local governments have little or no influence on the local business climate as the majority of fiscal, economic and other policies are still the prerogative of the Central Government. Despite all of that, local governments appear to understand the key role they play in sustaining small business development in their territories and often find ways to actually exercise that role with whatever small means available. For example, some local governments take an active role in encouraging investments in their territories and promoting foreign trade, lobby for establishing free economic zones as well as set up business incubators and streamline business registration and supervision procedures.

E. Political Relationship with the U.S.

Moldova-U.S. relations are strong and cooperative. The U.S. is by far the largest bilateral aid donor in Moldova. The U.S. Embassy also serves as the Contact Point Embassy for NATO in Moldova. U.S.-Moldova cooperation covers a broad spectrum of issues, constrained somewhat by Moldova's limited financial resources.

Chapter IV: Marketing U.S. Products and Services

A. Moldovan Business Attitude Towards the United States

Over the years, Moldovans have developed respect for U.S. products and business methods. U.S. products are considered high quality in Moldova. However, a commonly held opinion among local business people is that, because the United States is at a great distance from Moldova, final prices on many U.S. products shipped to Moldova will be higher than those for similar European products mostly due to higher transportation costs. Another commonly held, but erroneous, opinion among Moldovan businesses is that, because the United States Government has played such an important role in aiding Moldova, U.S. businesses should also exhibit some sort of charitable attitude toward local businesses.

B. Marketing U.S. products and services

Marketing products in Moldova may be a challenge. Distribution channels are significantly better developed in the capital Chisinau, the country's main economic area with over one million consumers or roughly one quarter of Moldova's population. Outside Chisinau, sale outlets tend to be much smaller and distribution channels are less developed as they serve a relatively less affluent population scattered on a wider area. Additionally, more and better developed advertising channels and services exist in Chisinau than outside the city. Relatively fewer radio, television and other means of advertising are available in the countryside which accounts for almost half of Moldova's population. With many distribution channels being informal and given the relatively small size of the market, it appears that big retail outlets buy local products directly from Moldovan manufacturers. Foreign goods are brought into the country by big retail outlets and several bigger distribution companies, which, in turn, obtain the products from regional distributors primarily located in Romania, Russia and Ukraine.

U.S. businesses interested in marketing their products in Moldova have a number of options as follows:

 Contacting the commercial section of the Embassy for various sales leads and contact information for major local distributors in a variety of sectors;

 Participation in local trade exhibitions;

 Subscription to BISNIS distribution list for obtaining trade leads in Moldova;

 Establishment of a representative office, joint venture or use of other forms of market entry, as appropriate.

The Embassy's Commercial Section customarily helps U.S. businesses locate appropriate local business partners and does various commercial reporting. Upon request, the

Embassy will provide U.S. businesses interested in a particular sector with a list of major local distributors who would be likely to carry a particular product. The Embassy will not make a thorough assessment of the business standing of a particular local firm, but will make a reasonable effort to examine any publicly available reports on the merits of the local company. To obtain market studies, credit checks and other business/sector evaluations for Moldova, U.S. businesses are also encouraged to contact specialized local organizations. Additionally, BISNIS, a U.S. Department of Commerce service, will occasionally prepare business sector reports and other information which is posted on the Internet at www.bisnis.doc.gov.

Some public reports suggest that one should be careful when choosing a local partner. Besides using the offices of the Embassy and those of reputable consulting/specialized firms, U.S. businesses may place a request with the Moldova Trade and Industry Chamber which presently has over 800 member companies. Other Moldova business multipliers may be approached as well.

Trade shows represent another venue for entering the Moldovan market. Although small by Western standards and with fewer visitors, trade shows organized in Moldova attract companies from many countries of the world, including Western Europe. The experience has been that show participation by U.S. companies was minimal. Exhibitions which are held in Chisinau by two major local show organizers, Moldexpo and Poliproject Exhibitions, are probably the best to visit or participate in. The few trade exhibitions held in other regions of Moldova appear to enjoy less popularity. A list of major trade exhibitions is found in Chapter XII.

Although only tested in Moldova, catalog shows may prove to be an effective way for U.S. businesses to gather sale leads. In May 2000, BISNIS, in cooperation with the Embassy, has conducted the first ever U.S. product catalog show in Moldova. The catalog show, conducted during the fifth international packaging exhibition organized by Moldexpo, featured U.S. packaging, labeling and related technologies.

The BISNIS representative in Moldova is engaged in collecting trade leads from Moldovan companies. These leads are then sent out by email to U.S. companies that subscribed to the Moldova distribution list and are also posted on BISNIS's website (www.bisnis.doc.gov). For more information, please contact BISNIS at bisnis@ita.doc.gov or call (202) 482-4655.

Another option for U.S. businesses to pursue is to open an office in Moldova. Although requiring more effort and commitment than other options, such a strategy may give U.S. businesses a better grasp of the Moldovan market.

U.S. businesses can freely associate themselves with local companies, open up representative offices, or register fully-owned or partially-owned ventures in Moldova. Foreigners can own 100 percent stakes in a business registered in Moldova without any

other restrictions. Also, Moldova has liberal foreign investment policies (for an in-depth look at Moldova's investment climate statement readers are referred to Chapter VII).

The form of incorporation to be chosen is dependent on the U.S. business's strategy. The major forms of incorporation available in Moldova are: representative office, joint-stock company, limited liability company and sole proprietorship. Note that from the point of view of taxation sole proprietorships are treated more favorably, while representative offices are taxed the same way as joint-stock companies. U.S. businesses are advised to seek majority ownership stakes in joint ventures to minimize risks in an already uncertain commercial environment. Also, U.S. businesses will probably be better off in associating themselves with privately-owned companies rather than state-controlled enterprises. Post would like to warn U.S. businesses about potential dangers of doing business in the breakaway region of Transnistria. As some recent experiences suggest, U.S. businesses may encounter complete lack of cooperation from Transnistrian partners and authorities after investments and other long-term commitments had already been made.

Although it is relatively easy to register a business in Moldova, U.S. companies are advised to use the services of an attorney. A number of firms offer business registration and representation services (see partial list in Chapter XI).

Normally, business registration takes up to 15 days once all the documentation is turned in to the state registration chamber. For an additional fee, registration may be done within a few days. Generally, the official registration fee is USD 300 for a joint venture and USD 500 for a representative office. Additionally, a fee amounting to 0.5 percent of the registered share capital is levied at registration. Note that US businesses must submit copies of registration documents which need to be legalized in the United States. An additional legal requirement is that, depending on the legal form of ownership, a specified legal minimum for charter capital will have to be provided for as well.

C. Direct Marketing

Direct marketing is a method largely unknown to the Moldovan consumer. With the exception of the traditional direct marketers, such as Zepter (cookware), Amway and some other beauty and health product marketers currently active in Moldova, no other companies engage in a major way in this form of promotion. Direct marketing is probably not an effective marketing tool in Moldova, mostly because to be successful it requires the presence of a rather large middle and upper class. The widespread use of direct marketing techniques is also hindered by the limited use of credit cards and few internet users, especially among the older generation, which is traditionally a wealthy segment in the West. Moldovan consumers have perhaps not grown accustomed psychologically to sales pitches which may be considered the norm in Western markets.

D. Sales Factors

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With Moldova being a small market, targeted sales are likely to yield better results. Following is a listing of customer categories which may present increased buying potential:

Moldovan enterprises that export for hard currency. This category is represented by canning factories, wineries and exporting food-processing companies.

Development projects financed by international organization, such as the ones financed by the European Bank For Reconstruction And Development and the World Bank micro-financing arrangement.

Moldovan enterprises with good domestic cash flow, among them meat processing companies, canning factories, milk processing firms, wineries, confectioneries and others.

Recently privatized companies.

E. Business Practices

Generally, Moldovan businesses are only learning the commercial practices which are now widespread in the industrialized world. Although it may be considered subjective, a common profile of a Moldovan business person follows:

Age 20 to 55 years.

Generally well educated and increasingly familiar with Western business practices.

May start a business without a clear understanding of the business itself and its strategy.

Still developing a business culture that takes into account management concerns for employee needs, especially at formerly state-owned companies.

Beginning to see the need for market studies and customer profile reports.

Still developing Western-style financial management practices.

For business purposes, uses mostly the Russian language, although may speak Moldova's official language (Romanian) at home.

Beginning to understand the need to develop brand awareness or initiate advertising campaigns.

Internet and email is looked upon as an unnecessary luxury, rather than a useful business tool.

Understands the importance of personal business contact. Always prefers doing business in person, rather than on the telephone and fax or by delegating authority.

Being late for business meetings is not considered uncommon.

Personal relationships are considered at least as important as signed official agreements.

Generally, few speak foreign languages. The younger generation has a better foreign language proficiency.

F. Advertising and Trade Promotion

The advertising sector in Moldova has developed and gained in importance in the 1990s as a market economy has emerged. Advertising of Western goods and services currently accounts for the lion's share of spending, including advertising sponsored by locally established joint ventures. Two prominent Western advertising agencies are active in Moldova: Grey and Oghilvy Mather. Moldovan advertising regulations are not well developed. Also, Moldovan companies face a limit on the amount of advertising costs they can deduct from their taxable income, thus making spending on advertising less appealing. U.S. companies may use a variety of advertising forms, of which television appears to be the most effective, at least in the Chisinau area. Advertising in print media is also considered an effective form of advertising in Moldova. Some of the most popular general and specialized publications in Moldova are:

-- Komsomoliskaya Pravda (tolstushka)	weekly paper, Russian-language
-- Makler, Chisinau Friday issue	weekly classified ads paper, Russian-language
-- Ekonomicheskoe Obozrenie	weekly business newspaper, Russian-language
-- Banki I Finansy-Profit	monthly finance and banking journal, Russian- and Romanian-language
-- Observatorul Economic	monthly business journal, Romanian-language

A brief list of Moldovan advertising agencies is included in Chapter XII.

G. Product Pricing

Due to a suffering economy, Moldovans are price sensitive especially in relation to basic foodstuffs, utility services, clothing, and footwear. For example, a recent eight-percent rise in prices for bread and a concurrent 30-percent rise in electricity prices have caused panic and serious discontent among ordinary Moldovan citizens. Attempts to raise fares on Chisinau city public transportation routes met with resistance from students and other socially vulnerable classes.

This is not to say that higher-end items or services will not sell at relatively higher prices. Anecdotal evidence suggests that some wealthy "new Moldovans" engage in buying sprees.

On the business side, firms appear to prefer old but refurbished equipment which normally comes at lower prices.

Generally, Moldovans have yet to witness serious price battles among competing brands and stores. One such example which is unfolding at present is the increasingly fierce competition between two mobile phone operators.

H. Government Procurement Practices

According to current Government procurement practices, for purchases in excess of ML 45,000 (approximately USD 3,600) a public tender should be announced. Until recently, Government procurement tenders were conducted for some of the following: foodstuffs, clothing for the military; various medicines and equipment; coal and vehicles to name just a few product categories. According to the tender procedures, a tender may not be announced until the Ministry of Finance, the Government's finance watchdog, certifies that a certain Government institution requiring the goods has enough financing available. Despite these practices, the Government may run, as it did in the past, into financial constraints. Therefore, given the above and the Government's pressing need to meet its spending targets, U.S. businesses are advised to approach such tender notices with caution. Government procurement tenders do not preclude foreign contenders from participating. Also, there are no restrictions as to the origin of goods.

I. Office Rental And Business Services

Generally, good-quality office space is widely available at acceptable prices. The monthly rent for a downtown, medium-to-high class office in the capital city of Chisinau, including office furniture, air conditioning, heating and other utilities, does not exceed USD 25 per square meter. Good quality office space is available at some of the following locations in Chisinau: Petrolbank, Tis Business Center, Jolly Allon Hotel, Alfa (former TV factory) and ASITO office building.

Since the privatization of three out of five electric distribution companies in 1999, power supply has become normal in the territories served by the privatized power distributors, including the Chisinau area. However, temporary power outages continue to occur in Moldova's north.

U.S. companies may rent or buy office equipment locally. A number of dealers carrying well-known information technology brands from such leaders as Hewlett Packard, IBM, Apple, Oracle and other leading firms, are active in the country. Locally assembled computers and local network integration solutions, which sell at substantially lower prices than in the West, are available.

Because the internet access services market has become more competitive in recent years, prices have declined significantly. Prices for unlimited dial-up access to Internet, with a free email account and callback service, may range from USD 12 to 50 per month. Depending on the access speed desired, dedicated internet access costs anywhere between USD 100 and USD 1,200 per month, with the top speed being 256,000 bits per second.

Labor is relatively cheap in Moldova. Employees of Western firms, receiving wages in the range of USD 200 to 800 per month, generally get paid much better than those employed by local companies. Generally, there is no difficulty in hiring English-speaking secretaries and English translators, although specialized English-speaking

personnel may be harder to find. The Embassy can make available to interested U.S. businesses a list of potential English translators and local recruiting agencies.

Mail and courier services are available in Moldova through DHL, UPS, TNT, FEDEX and other delivery service providers.

Moldova is among the leaders in the former Soviet Union in making the transition to the International Accounting Standards (IAS). Moldova has adopted most of the needed national standards which are in compliance with the IAS, although some issues regarding comparability of national and international accounting standards remain. In assessing financial statements of Moldovan companies, U.S. businesses are advised to contact local seasoned professionals. Professional auditing and accounting services are available from local and international firms. The Embassy's Commercial Section may provide upon request a list of auditing and accounting companies experienced with local accounting practices.

Chapter V: Leading Sectors for U.S. Exports and Investment

A. General

United States exports to Moldova fell 49 percent to USD 11 million in 1999 compared with 1998. This is the result of a severe devaluation of the Moldovan currency, the leu, which was about 80 percent in the fall of 1998 alone, with another 37 percent drop over 1999. On the other hand, in the first quarter of 2000 U.S. exports to Moldova reached about three quarters of the total 1999 volume, climbing to U.S. 8.2 million. This is significantly ahead of the 1999 pace. Leading U.S. exports to Moldova were products from the following product categories: milling, malt and starch; machinery; vegetables; optical devices and medical instruments; electrical machinery; perfumery and cosmetics; books and newspapers; meat, cereals, fats and oils. The most notable increase in exports in 1999 over 1998 was recorded in the category milling, malt and starch. In absolute terms, export values in each of the categories mentioned are relatively small ranging from several hundred thousand dollars to only USD 2 million.

In 1999, U.S. imports from Moldova declined 20 percent to USD 89 million compared with 1998. Leading imports were iron and steel; woven apparel and knit apparel. These three categories accounted for 97 percent of that year's imports from Moldova. A more than twofold increase in import values occurred in the category knit apparel, largely reflecting a fee-for-service arrangement between Moldovan knitwear companies and their U.S. partners.

Since gaining independence in 1991, Moldova attracted over USD 300 million in foreign direct investments (FDI), according to an official statistical report (Note: this figure is likely to understate the actual fdi into the country as it is derived from companies charter capital, leaving out any subsequent investments. End note.) Of this amount, USD 145

million represents the stake Russia's Gazprom secured in a debt-for-equity swap in the country's gas monopoly Moldovagaz. The United States is the second largest single-country investor in Moldova after Russia, with U.S. investments amounting to some USD 34 million or 11.5 percent of the total cumulative foreign investments in the country. Leading sectors for U.S. investments are: oil and gas exploration and extraction; food processing and beverages; pharmaceuticals; agricultural services; trading.

In 1998, the Government of Moldova established the National Agency For Attracting Investment. The agency has determined these priority areas for foreign investment: tourism (health spas, hunting, picturesque and historical places, and wine tourism); transport (transportation of goods, tourism, and warehousing); agriculture (food processing, wine, tobacco, vegetable, corn and soya oil, milk and meat production); construction materials; and light industry. Moldova is particularly keen on attracting hi-tech investment.

B. Significant Investment Opportunities

1. Moldtelecom

The Government's intention is to privatize the telephone monopoly Moldtelecom starting with the year 2001 after more telephone lines and better equipment are added. Meanwhile, the Government has put off for an indefinite time the selection of an international investment bank to advise the sale. Presently, a new law for the privatization of Moldtelecom is under consideration.

2. Other privatizations

Vice Premier Cosarciuc said the Government of Moldova will float a 24 percent stake in the country's gas monopoly, Moldovagaz, leaving it with 10 percent—enough to influence board decisions. Russia's Gazprom owns 50 percent (plus one vote) of Moldovagaz. No concrete timetable has been announced yet.

Separately, in the fall of 1999 the Moldovan Parliament rejected the laws providing for the privatization of the tobacco industry and five key wineries. Part of the IMF conditionality, these laws were proposed to the Parliament for adoption in the spring of 2000, but were again rejected. As a result of renewed talks with the World Bank and the IMF which started in June 2000, the adoption of these laws may again become a priority for Moldova in order to improve relations with the international financial institutions and donor community.

The following wineries were initially scheduled to be privatized in the year 2000: Aroma Distillers, wine and brandy making enterprises in Balti and Calarasi cities; Vismos, Cricova, Nistru-Vin, Cojusna, and Euro-Alco.

Some other companies slated for privatization are: Termocom S.A. (heat producer and distributor for the city of Chisinau) and Holding Conversia Enterprises, which include high-tech manufacturing and research companies formerly supplying the Soviet military.

Privatization of agricultural land continues; however, foreigners are not permitted to purchase this type of land.

3. Transportation

The transportation sector represents a number of opportunities for American investors such as repair services, remanufactured parts, and supply of new and used automobiles (in particular, buses and minivans).

Chapter VI: Trade Regulations, Customs, and Standards.

A. General

The most important trade regulations are listed in these laws:

- "On The Regulation Of Import And Export Of Goods And Services" n. 188-XII (07/26/90);
- "On The Bases Of Foreign Economic Activities In Republic Of Moldova" n. 849-XII (01/03/92);
- "On The Custom Tariff" n. 1380-XIII (11/20/97);
- "On The Regulation Of Repatriation Of Money Resources, Goods, Works And Services Proceeding From Foreign Economic Transactions" n. 1466-XIII (01/29/98); and
- The 2000 Budget Law no. 918-XIV (4/11/2000).

In addition, there are a number of Government resolutions such as "On The Performance Of The Production Certification In The Republic Of Moldova" n.414 from 06/13/94, which establishes the list of imported goods requiring certificates of conformity; and "On The Improvement Of The Foreign Trade Regulating Mechanism" n. 777 from 09/13/97, which further liberalized the import and export of goods. In June 2000, after adoption by the Parliament, the Law On Technical Barriers To Trade (no. 866-XIV, March 10 2000) was enacted as part of Moldova's effort to complete its accession to the World Trade Organization.

B. Customs Regulations, Taxes And Tariffs

1. Customs Regulations

At present, an importer has to present 11 documents at the Moldovan border crossing point. The documents are: a supplier's price bid; an invoice; a sale/purchase contract; transportation documents (with seals of the exporting country and of transit countries); a commodity insurance contract and insurance policy; data on the importer's accounting; a hard-currency payment order from a bank; a statement of the hard-currency account that was used to pay for the goods; a document proving the goods' acceptance; a contract for the goods sale on the domestic market; and a document for receiving hard currency through an exchange at the hard-currency market.

In 1998, the Moldovan Government enacted a strict resolution to control customs costs of some imported goods. This supplement to the customs regulations indicates the indicative prices for a variety of imported goods. If the price of a commodity claimed by the importer is below the listed amounts, the importer will have to provide additional information to prove the price claimed.

2. Customs Tariffs

The customs tariffs for imported goods are applied according to the 2000 Budget Law. Besides tariffs, all imports are charged a value-added tax of up to 20 percent as well as an excise tax (if the item is subject to the excise tax). Additionally, importers must pay for customs procedures which may not exceed 600 euros for all the items attributable to each nine-digit harmonized system code.

Exemptions: customs tariffs are not applied to goods produced and imported from Romania and countries members of the Commonwealth Of Independent States that have ratified free trade agreements.

3. Value Added Tax (VAT)

The value added tax generally applies to all goods and services sold in Moldova (the breakaway region of Transnistria is a stark exception). The general VAT rate used is 20 percent of an item's sale value, although a number of exceptions exist as stipulated in the Tax Code and the Budget Law 2000. For imported goods, the value added tax is generally payable at the border before the goods can actually enter the country.

Goods imported into Moldova, under agreements for technical or other assistance, are charged a zero rate of value-added tax. These agreements include such organizations as the United Nations, IMF, World Bank, EBRD, OSCE, Soros Foundation, U.S. Government technical assistance projects, TACIS, Red Cross and some other institutions/aid programs. Additionally, the following categories of goods are not charged the value added tax per the Budget Law 2000: some goods intended for children

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(including baby food for babies up to one year old), adapted milk mixtures, homogenized juices, school and children materials; a variety of machinery for the power, food, textile, metal processing and other industries. Other value-added tax exemptions and facilities exist as per the Tax Code and the Budget Law 2000.

Items brought into the country for personal use are exempt from VAT, provided they fit the categories and are in quantities indicated in annex 9 of the Budget Law 2000.

Business travelers can enter only one portable computer per person into the country without the assessment of taxes/duties/payments. The portable computer can contain encrypted and other software for which no levies will be assessed. Exceptions are materials which are detrimental to public morals.

4. Excise Taxes

Excise taxes are stipulated in annex 5 of the Budget Law 2000.

Excise taxes are charged on goods consumed in Moldova, both produced locally and imported.

The imports and sales of vodka, liqueurs and other alcoholic drinks; grape, fruit and berry wines; sparkling wines; divines (cognacs); tobacco products, coffee, perfumes and furs are allowed by customs and fiscal bodies if they were marked with excise stamps during their production. These goods can be imported without these stamps by individuals for personal use in the amounts established in the 2000 Budget Law. Excise stamps for imported goods are sold by the Customs Control Department. Gasoline and diesel oil, home electronics and automobiles are subject to excise taxes as well. Certain excise tax exemptions exist.

5. Special Import/Export Requirements

Import licensing

A license for import of weapons, explosive substances, nuclear materials, technologies, equipment and installations is issued by a special committee of the Moldovan Government. The Ministry of Health must license the import of pharmaceutical products and related chemical substances. The Ministry of Agriculture and Food licenses the import of poisons, chemical and biological products for plants, and the instruments and apparatus for veterinary medicine. The Ministry of Finance must license the import of precious metals (silver, gold) and products thereof; alloys; semi-finished products which contain precious metals (except electronic products which contain precious metals); petrol and diesel oil; as well as for the import of alcoholic beverages and tobacco products.

In March 2000 the Government of Moldova signed a contract with the Swiss company SGS, which was awarded a three-year contract for pre-shipment inspection of imports

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into Moldova. However, already in May the constitutional court invalidated this contract on grounds that the Government lacked the necessary authority to conclude such an agreement. It remains to be seen whether new attempts to introduce pre-shipment inspection will be made.

Export Certification

U.S. companies desiring to export to Moldova must be sure that Moldovan certification requirements are met before shipping goods. Under Moldovan law, a wide range of goods and services including all kinds of food and food byproducts, food-processing and packaging equipment and materials, alcoholic and other beverages, tobacco, wood products, and various types of clothing must be certified before they can be imported into Moldova. The Moldovan Department of Standards and Technical Supervision (Moldovastandard) issues certificates of conformity to Moldovan standards using procedures recommended by the international certification organization.

Goods with international product certification:

If a product already has international product certification, the certification process in Moldova starts with submission of an official application form along with other documentation regarding the product's international certification. No later than one month from the time of the initial application, a foreign company applying for Moldovan product certification should receive a response on the validity of its product's international certification in Moldova. The following documents should be submitted along with the application form: a notarized copy of the foreign certificate; legal documentation relating to the certification; if relevant, a copy of the record of a previous certification examination; and if relevant, a graphic illustration of the product's certification sticker. Documents required for certification should be prepared in Moldovan. English-language documents should have a notarized translation into Moldovan.

Goods without international product certification:

If goods arrive in Moldova without international certification, the importer must pay deposit fees to the Moldovan customs office, and the goods cannot enter the country. If goods do arrive without a certificate, the imported products must be held at a Moldovan customs warehouse, where they must remain until a certificate of conformity is presented to customs officials. Storage is expensive and requires additional documentation, such as a security certificate.

Moldovastandard supervises several certification agencies that conduct certification analyses on a fee-for-service basis. Required application forms are provided by the entity that will ultimately issue the certificate. After the fee has been paid, the certification body provides the company with all forms necessary for the certification process.

Hygienic certification:

In some cases products must undergo a hygienic examination before a certificate of conformity can be issued. A certificate of hygiene is obligatory for foodstuffs and related raw materials, various products for children, water-supply equipment and materials, and other products. A certificate of hygiene must be issued by the state sanitary inspectorate before the product is imported into Moldova. It can be granted either on the basis of an international certificate of hygiene already issued or on the result of local examination. The certificate will usually be issued 15 days from the date the relevant information is submitted. In the case of complicated laboratory examinations, issuance should occur after no more than a month.

GSP: the Republic of Moldova benefits from the generalized system of preferences (gsp), granted by the member states of the European Union, Japan, Canada, and the USA. The Ministry of Economy and Reforms issues certificates of origin for the export of goods that benefit from the GSP.

Labelling requirements

Effective May 15, 2000, two general sets of labelling requirements exist: for foodstuffs and non-foodstuffs. These requirements do not apply to medical equipment and medicines, polygraphic items and some other specialized products. Romanian-language text on products imported and sold in Moldova is obligatory. Text in other languages may be used in addition to the Romanian text.

The following information is required on food items imported and sold in Moldova: product name, name and contact information for the producer, packaging company, exporter and/or importer; country of manufacture, brand name (if applicable); net weight, volume or quantity, list of ingredients, nutritive value, storage instructions, validity period, date of production, information regarding product certification, information on special product treatment methods (if applicable), bar code (if assigned), other information.

As for non-food items, labelling requirements are as follows: product name; country of manufacture; name and contact information for the producer, packaging company, exporter and/or importer; main product function or area of use; safety, storage, transportation and efficient use rules as well as repair, rehabilitation and disposal instructions; basic product characteristics; information about certification; net weight, dimensions and/or quantity; product ingredients; brand name; date of production; term of validity or period of functioning, including warranty period; bar code (if assigned); other information.

C. Free Trade Zones

The investment climate statement prepared by the Embassy discusses the free trade zones located in Moldova and their activity (see the following chapter).

Chapter VII: Investment Climate

A.1. Openness to Foreign Investment

-- The Moldovan Government is very interested in attracting foreign direct investment, and has created an adequate legal base with favorable tax treatment for foreign investors. Moldova particularly needs foreign direct investment to upgrade and restructure newly privatized companies. Moldova's traditional areas of economic activity, food processing and wine making and their export, are also potential business areas for attracting foreign investment. The Government prefers to have experienced foreign investors for strategic sectors of the economy: energy, telecommunications and tobacco.

-- During the 1999-2000 period, foreign investment slowed due to the 1998 Russian financial crisis and a break in IMF and World Bank financial support. (Moldova failed to fulfill IMF conditionality as Parliament refused to privatize the wine and tobacco sectors.)

-- The Constitution of the Republic of Moldova guarantees the inviolability of investments by all physical and legal entities, including foreigners. Key constitutional principles include the establishment of supremacy of international law, market economy, private property, provisions against unjust expropriation, provisions against confiscation of property, and separation of power among government branches.

-- In addition, the law on foreign investments provides the legal framework for activities of foreign investors and enterprises in Moldova. It defines foreign investment, provides guarantees on the repatriation of profits, and protects foreign investments. In general, the law is clearly designed to promote foreign investment.

-- Other significant laws affecting foreign investment are: The Law on Property, The Law on Entrepreneurship and Enterprises, The Law on Joint Stock Companies, The Law on Small Business Support, The Law on Financial Institutions, The Law on Franchising, and The Tax Code.

-- Moldova has a liberal investment system. Current legislation is based on the principle of nondiscrimination between foreign and local investors.

-- Ownership of agricultural land is restricted to Moldovans.

-- There is no screening per se for foreign investment in Moldova. However, companies with foreign equity exceeding USD 5 million must be approved by the Anti-Monopoly and Competition Department in the Ministry of Economy and Reforms.

-- The Law on Foreign Investment permits foreign investment in all sectors of the economy. The only limits relate to state security interests, anti-monopoly legislation, standards of environmental protection, health of the population, the social order, and moral norms.

-- The Government gives the highest priority to the attraction of foreign investment in the following sectors:

energy, agriculture, transport, social commodities, and construction and building materials

-- During the 2000-2001 period, the Government would like to attract foreign investment in areas that are anticipated to be privatized, particularly the energy, tobacco, wine, and telecommunications sectors. Tenders for the privatization of 5 energy companies (2 distributing and 3 generating plants) were announced in early 2000. Tenders for moldtelecom were postponed until 2001.

-- Only state enterprises, not private firms or foreigners, are permitted to participate in the following activities:

sale and production of narcotic, toxic, and poisonous substances;

sale and production of combat and special military technical equipment; and some types of medical care and treatment.

-- In addition, there are certain activities where both foreign and domestic private enterprises must obtain a state license.

-- Moldova adopted several programs since the privatization process began in 1994. The first program allowed privatization via national patrimonial bonds (NPBs), similar to vouchers. Foreigners were not permitted to participate. The second, in 1995-1996, consisted of privatization via NPBs, for Moldovans only, and privatization via cash transactions for both locals and foreigners. The third program, in 1997-1998 (extended through 1999-2000), involves only cash privatization. Foreign investors are welcome to participate. This program also gives some privileges to local investors: Moldovans can pay for a privatized asset in installments (a 25 percent downpayment with fixed, quarterly payments for 3 years), while foreigners must pay the purchase price in full. According to some local experts, the success of the third program depends on foreign investors, because domestic entrepreneurs do not have enough capital to invest in large public industries such as energy, telecommunications, tobacco, and wine.

-- Moldova did not specify a special privatization program for 2000. The 1998 program was extended with modifications, including a list of enterprises to be privatized. The amendments also include a provision to sell bankrupt enterprises or unfinished construction items for the symbolic price of Moldovan Leu (MDL) 1.

-- Three (of 5) electrical distribution companies were purchased by Union Fenosa (Spain) in late 1999. In March 2000, the Government of Moldova announced an open international tender for the privatization of two electrical distribution companies and three-combination heat and power production plants.

-- In early 2000, the Moldovan Parliament rejected individual projects for the privatization of the tobacco sector and five wineries, originally authorized by the Government.

-- Moldovan Foreign Investment Law prohibits discrimination for the purpose of hindering foreign investments, utilization and liquidation of foreign assets, and interference in repatriation of capital investment and profit associated with foreign investment. Local companies and foreigners are treated similarly with regard to licensing, approval, and procurement. The registration process is, however, bureaucratic, costly and non-transparent, and the process of getting a state license or approval can itself be very bureaucratic and lengthy.

A.2. Conversion and Transfer Policies

-- There are no restrictions on the conversion or transfer of funds associated with foreign investment in Moldova. After the payment of taxes, foreign investors are permitted to repatriate residual funds. Residual fund transfers are not subject to any other duties or taxes and do not require special permission.

-- There have been no recent changes and there are no current plans to change remittance policies.

-- There are no difficulties associated with the exchange of foreign or local currency in Moldova. There was a short period of MDL depreciation in late 1998-1999, however, the MDL has been mostly stable in 2000 with the exchange rate fluctuating around MDL 12.5-12.6 per 1 USD dollar.

-- There are no delays in the remittances of investment returns since domestic commercial banks have accounts in leading multinational banks.

-- The Law on Foreign Investments guarantees foreign investors the unlimited right to transfer foreign currencies, including profits, abroad after any taxes have been paid. The Embassy has no information on complaints from major U.S. investors regarding the converting or transferring of funds associated with investments in Moldova.

A. 3. Expropriation and Compensation

-- The Law on Foreign Investments states that foreign investment cannot be expropriated, nationalized, or subjected to any other similar measures without appropriate

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compensation. Compensation must correspond to the value of the lost investment at the time of expropriation or nationalization. Compensation must be paid in the currency in which the original investment was made, no later than 3 months from the date of expropriation. The compensatory funds may be repatriated without restriction.

-- There have not been any expropriatory actions or policy shifts recently in Moldova. The Embassy does not expect expropriatory actions in the near future. The Government has given no evidence of intent to discriminate against U.S. investments, companies, or representatives with expropriation.

-- No special sectors are at greater risk of expropriation or similar actions in Moldova.

-- Only Moldova's Land Ownership Law specifically requires local ownership, and this applies only to agricultural land. Government officials have indicated that these restrictions will be gradually relaxed. At this time, foreigners are permitted to buy all other forms of property in Moldova, including land plots under privatized enterprises and land designated for construction.

A. 4. Dispute Settlement:

-- In recent years there have been only two investment disputes in Moldova. One involved the Cavalleri Ottavio company of Italy, and the other, the Technovax company of Greece.

-- Cavalleri Ottavio and the Ministry of Transport and Communications were jointly involved in an EBRD-funded road reconstruction project. The Italian side claimed over USD 1.28 million in damages during a six-month delay in construction. The Moldovan side wanted to settle the dispute between the two companies according to local rules, despite the fact that according to the agreement previously signed by the two sides, any dispute between the two companies was to be settled according to international FIDIC rules. The dispute was settled internally.

-- Technovax and the Moldovan Government are both shareholders in the "Terminal" joint stock company. Both are supposed to fulfill commitments to build an oil terminal near the village of Giurgiulesti on the Danube river (in south Moldova). The Giurgiulesti oil terminal is currently the country's largest project. The Moldovan Government has had difficulty in fulfilling its obligations. To solve this problem Technovax applied to the International Court of Arbitration (London). In June 2000, the London court postponed hearings on the Greek company's claim at the Moldovan Government's request. According to local experts, the Government's failure to meet its contractual commitments may cost USD 40 million in penalties to Moldova. Resolution of this dispute is still unclear.

-- Moldova's legal system has improved in recent years. One of the most important issues remaining is the synchronization of Moldovan law with international law, and in

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particular, EU law. However, even if local law is brought up to international standards, it is quite often not applied effectively.

-- The court system is relatively undeveloped; but basically free of corruption. Moldova is a signatory of the international convention on the acceptance and enforcement of foreign judgments. Moldova has a documented and consistently applied Commercial Law.

-- The Bankruptcy Law is not applied effectively. In 1998-1999 Moldova attempted to modify the existing law. Under Bankruptcy Law, creditors have the right to require total payments of debt. Before creditors receive payment, however, legal and administrative costs of the proceedings must be paid. In order of precedence, secured creditors are repaid before unsecured creditors. In a report on the legal system in transition economies, which was recently published by the EBRD, Moldova was assigned a 44 percent index on a 100-point scale, based on the perception of Moldovan lawyers concerning the effectiveness of local bankruptcy laws. Moldova ranked slightly higher than Russia and Poland, but lower than Slovenia and Hungary.

-- The Government accepts binding international arbitration of investment disputes between foreign investors and the state.

-- Moldova is a member of the International Center for the Settlement of Investment Disputes (ICSID - Washington Convention) and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Moldova has also ratified various trade agreements establishing bilateral investment protection (with the United States there is also a MFN agreement and some customs exemptions).

A.5. Performance Requirements/Incentives:

-- The Government is in compliance with WTO TRIM's notification.

-- Because of Moldova's strong interest in attracting foreign investments, the Law on Foreign Investments provides incentives in both the customs and taxation areas. Investments that contribute to the formation and enlargement of the aggregate capital of an enterprise are exempt from customs duties. Imported raw materials and semi-finished products used to manufacture export goods are also exempt from customs duties.

-- In 1998, some tax incentives (available in previous years) were excluded from the Foreign Investment Law. However, according to this Law, foreign investors and enterprises with foreign investments that enjoyed customs, tax, and other privileges in accordance with previous Moldovan legislation have the right to retain these privileges after the new legislation goes into effect.

-- There are no special requirements for investors to purchase from local sources or to export a certain percentage of output.

-- There are no special requirements that nationals own shares in a company. Both joint ventures and wholly foreign-owned companies may be set up in Moldova. However, individual privatization projects in sectors such as energy, telecommunications, tobacco, and wine may have specific requirements.

-- While not official policy, for strategic sectors of the economy such as energy, telecommunications and tobacco, the Moldovan Government prefers to have experienced foreign investors instead of local investors. In all other sectors, foreign and local investors are treated the same.

-- Procedures for implementation requirements are described in the law on foreign investment. Foreign investors are required to disclose the same information as local ones.

-- There are no discriminatory visa, residence, or work permit requirements inhibiting foreign investors in Moldova.

-- Moldova has commercial relations with 90 countries worldwide. It has a liberal commercial regime. The weighted average import tariff was 4.8 percent in 1999 (using 1998 trade weights). The weighted average import tariff for 2000 is 4.5 percent (using 1999 trade weights). According to the Tax Code, Moldovan exports are exempted from value added tax (zero VAT).

A. 6. Right to Private Ownership and Establishment

-- Foreign and domestic private entities have the right to establish and own business enterprises and to engage in all forms of remunerative activity.

-- Private entities have the right to freely establish, acquire, and dispose of interests in business enterprises. In practice, the market is not yet fully developed.

-- The same standard is applied to both private and public enterprises.

A. 7. Protection of Property Rights

-- The legal system protects and facilitates the acquisition and disposition of all property rights. Moldova has adopted laws on Property and on Mortgages. The system for recording property titles and mortgages is still under development.

-- Moldova adheres to key international agreements on intellectual property rights. Moldova is a signatory to the International Convention on Intellectual Property, signed July 14, 1967 in Stockholm.

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-- Moldova has adopted local laws and governmental decrees to protect intellectual property, patents, copyrights, trademarks, and trade secrets. Although many basic policies are in place, there is little active enforcement or protection.

-- Moldova currently has observer status at the World Trade Organization (WTO) and is working toward accession.

A. 8. Transparency of the Regulatory System:

-- Moldova's objective is to provide a transparent business environment for both domestic and foreign investors. The legal framework for anti-monopoly regulation is the Law on the Limitation of Monopoly Activities and the Development of Competition. The law establishes fundamental principles, based on EU standards, for regulating the activity of enterprises with a de facto monopoly and for support and development of competition.

-- Moldovan laws generally do not distort or impede foreign investment; however, the Law on Land use does not allow foreigners to buy agricultural land.

-- The establishment of a company with foreign investment generally does not require approval. Registration follows the same bureaucratic procedures as for domestic companies. In certain cases foreign investors may be required to obtain special permission from the State Environmental Protection Agency and the Medical and Epidemiological Agency, in order to verify the safety of the applied technology and the planned production facilities.

-- Bureaucratic procedures are not always transparent and red tape often makes processing unnecessarily lengthy.

A. 9. Efficient Capital Markets and Portfolio Investment

-- Laws, Presidential decrees, Governmental decisions, Securities Commission regulations, National Bank regulations, and Stock Exchange regulations all control the slowly developing capital markets and portfolio investment in Moldova. Existing policies facilitate the free flow of resources to Moldova.

-- According to the Law on Foreign Investment, an investment can be made in the form of:

hard currency or a foreign currency recognized by the banks of Moldova;

production equipment or fixed capital; and

property (including intellectual property) and non-property rights.

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-- Credit is allocated on market terms. The state regulates credit policy via: credit from the National Bank, auctioned through commercial banks; compulsory reserves; credits secured through collateral; open market operations; and T-bill auctions on the primary market. Foreign investors are able to get credit on the local market.

-- The private sector has access to a variety of existing credit instruments.

-- Moldovan legal, regulatory, and accounting systems are in a process of transition to a market system; however, they are not yet transparent and consistent with international norms. The accounting and financial sectors in Moldova have adopted international accounting standards.

-- The local regulatory system on portfolio investments includes a law on Investment Funds, a law on Joint Stock Companies, a law on Circulation of Securities and on Stock Exchanges, the Government's decisions regarding development of the securities market, and other regulations. There is a central depository charged with managing the securities market.

-- The total assets of Moldova's three largest commercial banks are as follows:

Agroindbank -- MDL 847.855 million (USD 67.8 million);

Victoriabank -- MDL 550.015 million (USD 44 million);

Banca Sociala -- MDL 390.270 million (USD 31 million).

There are 21 commercial banks in Moldova.

-- The Moldovan banking system is sound.

-- Due to the relative youth of the Moldovan commercial system, "cross-shareholding" and "stable shareholders" relationships are not in existence.

-- Measures to prevent hostile takeovers are typically designed to protect against all potential takeovers, not primarily foreign takeovers.

-- There are no laws or regulations authorizing private firms to adopt articles of incorporation or association which limit or prohibit foreign investment.

-- There are no private sector or government efforts to restrict foreign participation in industry standards-setting consortia or organizations. However, private enterprises' individual internal regulations may include some such restrictions.

A. 10. Political Violence

-- There have been no incidents over the past few years involving politically motivated damage to projects or installations in Moldova. Such civil disturbances are unlikely in the near future.

-- Mostly Slavic separatists control the Transnistrian region of Moldova along the Ukrainian border. The separatists have demanded "statehood" and reorganization of Moldova as a confederation of two equal states. However, they are negotiating with the Government of Moldova to normalize relations, albeit haltingly and slowly. The Organization for Security and Cooperation in Europe (OSCE), Russia, and Ukraine act as mediators in these negotiations. Although there was a brief armed conflict in 1992, the cease-fire of July 1992 has generally been observed. There are still international peacekeepers in Transnistria. Local authorities in Transnistria maintain a separate monetary unit, the Transnistrian Ruble (current market exchange rate is about 4.5 million rubles per one USD), and a separate customs system. Economic conditions in Transnistria are significantly worse than in the rest of Moldova. Despite the political separation, some economic cooperation takes place, e.g. in supply of electricity to Chisinau from a power plant in Transnistria.

A. 11. Corruption

-- Moldova has adopted laws, regulations, and penalties against corruption. Some corruption does exist, as laws are not effectively enforced.

-- In 1995, the Moldovan Government founded the Coordinating Council on Combating Corruption and Protectionism of the Moldovan Government. The Moldovan Parliament adopted a law on Combating Corruption and Protectionism in 1996. In 1996, the Moldovan Government established a Department for Control of Organized Crime and Corruption, which is now subordinate to the Ministry of Internal Affairs. In 1999, the Moldovan Government specified a special State Program for Combating Criminality, Corruption and Protectionism for 1999-2002.

-- On a scale from 1 (least corrupt) to 100 (most corrupt), Transparency International has ranked Moldova number 75, along with Ukraine, Venezuela and Vietnam, according to its 1999 corruption perception rankings. Moldova is ranked higher than other countries from the NIS, except Belarus, but much lower than Poland, the Baltic States and Romania.

-- Senior officials (from the Parliament and Government) are often accused of corruption in the local press. According to a recent local survey, 40 percent of the population believe that Moldovan senior officials are corrupt. Corruption and steps to stamp it out are frequent political topics. While political rivals exchange accusations of corruption, prosecutions have not occurred.

-- Moldova is not a signatory of the OECD Convention On Combating Bribery.

- In 1997, Moldova signed the European Convention on Money Laundering, Prosecution, Confiscation and Seizure of Goods Accumulated Through Crime (November 8, 1990, Strasbourg). To date, the Parliament has not ratified this Convention.
- The Embassy has no reports from U.S. firms that corruption is an obstacle to foreign direct investment in Moldova.
- Corruption is most pervasive in government procurement and taxation.
- Both giving and accepting a bribe is a criminal act in Moldova. Penalties for accepting or taking bribes vary from three to twenty-five years of imprisonment with property confiscation and deprivation of the right to have any position or perform any activity in public service for up to five years.
- A bribe to a foreign official is a criminal act in Moldova.
- A bribe to a foreign official cannot be deducted from taxes.
- The Department for Control of Organized Crime and Corruption, in the Moldovan Ministry of Internal Affairs, is responsible for combating corruption. There is also a special section for combating organized crime and corruption in the Information and Security Service (former National Security Ministry). The General Prosecutor's Office has a specialized anti-corruption, anti-protectionism and organized crime section.
- A local Transparency International NGO is currently in the process of official registration.

B. Bilateral Investment Agreements

- Moldova has signed bilateral investment protection agreements with 28 countries, including: the United States, Turkey, Poland, Germany, Romania, China, Switzerland, Ukraine, Uzbekistan, the Netherlands, Belgium, Luxembourg, Finland, Kuwait, Iran, Hungary, Bulgaria, Great Britain, Israel, France, Italy, Georgia, and Azerbaijan.
- Moldova has a bilateral treaty with the United States on the encouragement and reciprocal protection of investment, but does not have a bilateral taxation treaty with the United States.

C. OPIC and Other Investment Insurance Programs

- OPIC became active in Moldova in September 1997, providing political risk insurance to an American company investing in an agribusiness. In October 1998, OPIC approved a loan for an American company involved in oil and gas exploration and extraction in

Moldova, although to date the company has not borrowed the money. The Embassy cooperates with OPIC, and on a regular basis provides the Corporation with updated information on the economic and commercial situation in Moldova. The potential for increased future OPIC operation is high. With growing interest in Moldova by private U.S. businesses, there should be an increasing demand for loan guarantees or direct loans by OPIC or other sources of capital. Funding feasibility studies in the sectors undergoing a restructuring process is also an opportunity for OPIC.

-- The U.S. Exim Bank is open in Moldova for short-, medium- and long-term financing in the public sector and short- and medium-term financing in the private sector under its insurance, loan and guarantee programs. In May 2000, the Exim Bank of the United States and the Republic of Moldova signed a framework guarantee agreement setting the terms for the Government of Moldova to issue sovereign guarantees to facilitate Exim Bank financing of U.S. exports to Moldova. Exim Bank will continue to work with the Government of Moldova toward a project incentive agreement that would enable Exim Bank to consider financing of U.S. exports for credit-worthy projects in Moldova in the private sector on a non-sovereign risk basis (without guarantees from the Moldovan Government).

-- Moldova is eligible for U.S. Trade and Development Agency (TDA) assistance, but has not yet participated in any projects. Funding feasibility studies and orientation visits for local officials from the sectors with forthcoming international tenders are possible TDA considerations. Institutions such as the Multilateral Development Bank, the European Bank for Reconstruction and Development and the World Bank, are very active in Moldova in both the private and public sectors, offering various financial tools for both insurance and credit. Moldova is a member of the Multilateral Investment Guarantee Agency (MIGA).

-- The estimated annual U.S. dollar value of local currency used at the Embassy is about Usd 1,064,000 for FY 2000. The Embassy purchased local currency at the exchange rate of ML 10.8-10.9 to USD 1 at the beginning of the FY 2000 and at the rate of ML 12.3 - 12.4 per 1 USD in early July 2000. The Embassy purchases local currency at the prevailing market-based exchange rate on the day of the transaction. The currency has appreciated slightly over the last several months. The difficult economic situation in the country, compounded by a prolonged drought, will exert continued pressure on the Moldovan leu. According to an early 2000 government estimate, by December the exchange rate will reach ML 13 per dollar, despite the fact that the National Bank's foreign exchange reserves are at a comfortable USD 191.3 million (March 2000).

D. Labor

-- Skilled labor is readily available in Moldova, which has a ninety-percent literacy rate. The labor force includes numerous workers with specialized and technical skills. The Moldovan Constitution guarantees all employees, except governmental employees, the right to found or join a trade union. The General Federation of Trade Unions (the

successor to the Soviet trade union system) and its member organizations are the only unions in Moldova. Moldova is a signatory to numerous conventions for the protection of workers' rights.

-- Moldova increased the minimum wage for self-financing entities' employees in May 2000. The minimum wage to be paid to unskilled labor is ML 115 (USD 9.2) a month. This basic wage is multiplied by coefficients for seven higher skill categories of labor. The governmental decree stipulates additional payments for overtime, second and third shift work, and holiday work.

E. Foreign Trade Zones/Free Ports

-- Moldova's first free enterprise zone (FEZ), "Expo-Business-Chisinau," was established in Chisinau in 1996, with a 30-year charter. The law on FEZ "Expo-Business-Chisinau" was adopted in late 1995. FEZ was designed to attract foreign investment and technology. This legislation provided many incentives, guarantees, and privileges for both foreign and local businesses in the FEZ. FEZ resident-producers were also exempted from customs duties and the twenty-percent value-added tax. Producers paid reduced income tax. FEZ enterprises that invested USD 250,000 or more in the zone were exempted from paying the profit tax for a period of five years. According to the law on the FEZ, if a new law were passed which changed FEZ enterprises' customs or tax privileges, the enterprises were granted "grand fathering" to the old legislation for a 10 year period from the moment of enactment of the new law. However, in 1998 due to political pressure, many of the initial incentives were withdrawn (including the most important ones dealing with income tax) and many businesses (mostly trade - wholesale and retail) were closed.

-- Four more free enterprise zones are under development in Moldova: "Tvardita" (central part of Moldova - Tighina), "Taraclia" (south), "Valcanes" (south - on the border with Ukraine), and "Otaci-Business" (north - on the border with Ukraine). The law on FEZ "Tvardita" was adopted in 1995 but was changed in 1998. Laws in the other three FEZ were adopted later - in 1998 and have not changed. FEZ residents-producers are exempted from customs duties and the twenty- percent value-added tax. Producers from "Taraclia", "Valcanes", and "Otaci-Business" FEZ pay reduced income tax depending on a portion of their export sales. Residents of these FEZ which invested USD 250,000 or more in their production facilities or in the zone are exempted from paying income tax for a period of three years; with investments of USD 500,000 or more and over USD 1 million are exempt from income tax for a period of 5 years and 10 years respectively.

F. Foreign Direct Investment Statistics

-- Until 1998, foreign investment in Moldova had been on a steadily increasing trend. Foreign investments continued into the country, although at a slower rate, despite the severe impact in Moldova of the Russian economic crisis. By the end of 1999, total

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foreign investment in Moldovan companies' charter capital (excluding Transnistria) amounted to about USD 360 million. This is about USD 100 per capita.

-- According to Ministry of Economy and Reforms data, the 1999 foreign direct investment (FDI) flows to Moldova amounted to USD 47.3 million. For the same period, the volume of FDI allocated by European Union companies totaled about USD 39.6 million or 83.7 percent of the total FDI. FDI flows for the first three months of 2000 equaled USD 6.666 million or about 50 percent less compared to the same period in 1999. (Note: In this report, FDI is defined as investments in a company's charter capital. If the figures of the National Bank were to be used, which include investments in long-term assets which do not necessarily find their way into a company's charter capital, 1st quarter 2000 FDI to Moldova stood at USD 48.43 million. End Note.) According to Department of Statistical and Sociological Analysis data, the U.S. portion of FDI to Moldova was equal to about one third of total FDI flows in the first quarter of 2000.

-- According to the National Agency for Attracting Investment to Moldova, the 1999 breakdown of FDI by sectors was: trade and services - 46 percent of total investment, food processing - 19 percent, finance - 18 percent, hotels and restaurants - 10 percent, and exploitation of quarries - 6 percent.

-- According to ministry data, details on annual foreign direct investment capital flows to Moldova for recent years were (in million USD):

	1996	1997	1998	1999
FDI	23.18	71.43	57.45	47.3

-- Total foreign direct investment by country of origin for the ten largest investing countries (by the end of 1999):

Country	million USD
1. Russia	150.114
2. U.S.A.	34.072
3. Ireland	12.632
4. France	12.469
5. Liechtenstein	12.031
6. Germany	11.096
7. Great Britain	10.774

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8. Romania 10.032

9. Greece 7.545

10. Belgium 5.095

-- The following is a brief description of some major U.S. investments in Moldova.

-- In July 1995, the Moldovan Government granted an exclusive oil and gas development concession to Redeco, a U.S. company active in oil and natural gas exploration, gasification and power generation. In early 1996, the company registered its Moldovan subsidiary, Redeco Moldova. By June 1999, Redeco completed the first phase of its activities under the concession envisioning shallow exploration, drilling on the Valeni and the Victorovca gas fields, discovered by Soviet geologists in the 1960s. The second phase of the concession calls for a large scale seismic project followed by deep testing drilling (to a depth of 2,500-3,500 meters). The estimated cost of these projects is USD 10 million. To date, Redeco has spent about USD 11.4 million on its Moldovan projects.

-- McDonald's is one of the newest U.S. firms in Moldova. It opened an office in Chisinau in the summer of 1997, and opened its first two restaurants in Chisinau in 1998. Its third restaurant, a drive-thru establishment, opened in Chisinau in May 2000. McDonald's has invested over USD 3.5 million and intends to increase its investment to USD 15 million within the next several years.

-- Foodpro International, Inc., a San Jose, California-based U.S. consulting and engineering company with consulting engagements in the NIS and Eastern Europe, is involved in a fruit and nut project in northern Moldova. At present, its Moldova operations largely consist of the growing, processing, and export of walnuts. To date, the company has invested about USD 1.2 million in its walnut processing plant and walnut orchard, creating a vertically integrated business. The company wants to expand its production activity in Moldova and initiate another project, which will increase its direct investment by several million dollars.

-- Food Master International (FMI) has invested over USD 1 million in a dairy in Hincesti, a town on the outskirts of Chisinau. The FMI-Hincesti dairy joint venture began operations in 1997. In addition to its initial investment, FMI provided new packaging equipment and technical assistance. Hincesti dairy is currently producing milk, kefir, sour cream, liquid and regular yogurt, reajenka (liquid sour cream) and butter. In October 1998, the company bought 60 percent of outstanding shares of the Soroca Cheese Factory, located in the north of the country. Currently, the Soroca Cheese Factory produces hard cheeses, smoked processed cheese, and consumer size packaged butter. To date, FMI has invested USD 700,000 in the factory and plans to invest a total of USD 1.5 million. To maintain the current production volume and projected increases, FMI started milk collection and established 30 milk collection and cooling stations

throughout Moldova. The American company also launched intensive training programs in milk collection, marketing, and accounting for the two factories' personnel. In 1998, the two factories started to export their products to Romania. In May 2000, FMI purchased a 50 percent share of the Cimislia Dairy. At present, FMI has invested over USD 2 million in its Moldovan projects.

-- Although technically an Irish franchise, the Coca-Cola Company first came to Moldova in 1994, importing its products from its Romanian facilities. Since then, the local market has changed considerably, with a constant increase in present or potential customers of Coca-Cola. Because of the changing market, the company constructed its first Moldovan bottling facility, in Chisinau in 1997, and is continuing to increase its production. Coca-Cola has invested almost USD 9.5 million in Moldova. Coca-Cola Bottling in Chisinau is also the official distributor of Tuborg beer in Moldova since 1999.

-- The Indiana-based Trans Oil Invest, the majority owner of the Moldovan oil products distributor Agro-Petrol, invested USD 3 million in the Moldovan economy. In June 2000 Agro-Petrol started the production of industrial lubricants in Singerei. Agro-Petrol is also finalizing plans for the production of sweet carbonated drinks in Chisinau and is already bottling medicinal spring water in Cahul.

-- Since December 1993, Metromedia International Telecommunications Inc. (MITI), owner of the Radison hotel chain and Orient Pictures film company, has been co-owner with a Moldovan state-owned entity of Sun-TV, a cable and rebroadcasting operator in Chisinau and vicinity. In December 1996 Sun-TV acquired a rival cable operator Eurocable. At present, Sun-TV boasts a viewing audience of 200,000 or about one-third of the Chisinau area's population, and has an offering of 28 channels. It is by far the most popular cable operator in Moldova. MITI's investments in Moldova to date amount to USD 6 million.

Chapter VIII: Trade and Project Financing

A. Description of The Banking System

1. Banks

The domestic banking system was created in the early 1990s as a two-level system: the National Bank of Moldova (NBM) and the commercial banks. The NBM supervises the commercial banks and acts independently of the Government. Moldova's banking system is governed by the 1995 laws "on the NBM" and "on financial institutions". The laws, prepared with IMF assistance, correspond to international standards.

There are no restrictions regarding the foundation of foreign banks or their branches in Moldova. Twenty one commercial banks have an NBM license that allows them to perform international operations. At least two banks are currently completing a merger in order to meet NBM statutory capital requirements.

In line with IMF and World Bank recommendations, the Moldovan banking system adopted international accounting standards on January 1, 1998. The National Bank of Moldova introduced a requirement for doubling a bank's statutory capital requirements by the end of 2000 as follows: a minimum services bank, or "license A" bank, must have at least ML 32 million (USD 2.55 million) in statutory capital; banks with some additional services must have either at least ML 64 million (USD 5.1 million), for "license B" banks, or 96 million lei (USD 7.8 million), for "license C" banks, depending on the amount of services.

There are currently 21 commercial banks in Moldova, of which the largest banks are Agroindbank, Petrol Bank, Banca de Economii, Moldindconbank, Banca Sociala, and Victoriabank. Victoriabank is the only Moldovan bank with full membership in VISA and EUROPAY. As a private commercial bank, Victoriabank appears to have been the most proactive in supporting the small industry, retail, and food industry of Moldova.

There is only one bank in which the Government holds a controlling stake; it is Banca de Economii a Moldovei. There are several banks in which controlling stakes are owned by foreigners. These banks are: Eximbank, Businessbank; International Commercial Bank Of Greece-Moldova, Banca Comerciala Romana (BCR), and Banca Turco-Romana (BTR)-Moldova which opened its offices in Chisinau in May 2000.

2. Other Financial Institutions

Additionally, a micro enterprise credit corporation was set up to issue small loans to microenterprises and small businesses.

Other elements of Moldova's financial sector are less developed, but include the National Commodity Exchange, established in 1991; the Moldova Interbank Currency Exchange; the Moldovan Stock Exchange, established in 1995; 15 investment funds; and eight trust companies. In addition, a state commission on securities markets has been created to supervise the activity of securities market participants. In 1998, the state commission was renamed the National Commission on the Securities Market.

The first auction of 91-day treasury bills was held in 1995, while 730-day treasury bills were introduced in December 1997. In 1998, the Government tightened regulations concerning investment funds, limiting the holding of a fund in a firm to 25 percent.

B. Sources of Project Financing

1. The World Bank

Since Moldova joined the World Bank in August 1992, its lending has provided consistent support for Moldova's economic reforms. The bank's assistance strategy for

Moldova is in line with the Moldovan Government's program and has three pillars: macroeconomic sustainability, private sector development, and public sector reform.

In February 1996, the bank approved USD 35 million for the first private sector development project to support enterprises restructuring and financial sector reforms. In May 1996, two more loans were approved: USD 10 million for a project to help improve agricultural research programs; and a USD 10 million loan for an energy project to promote better economic and financial management. In April 1997, the bank approved a USD 16.8 million loan for the general education project. In September 1997, two additional projects were approved: a USD 9 million credit for a private sector development project to strengthen the competitiveness of private enterprises, and a USD 100 million structural adjustment loan and credit (SAL-II) to support growth and macroeconomic stabilization. In January 1998, a USD 5 million credit was approved for the Rural Finance Project, to assist in developing credit mechanisms for private farmers. This was followed in April 1998 by a USD 15.9 million credit for the cadastre project, to support the institutional framework for a land market.

2. European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) has already committed Euros 145 million in support of the private banking sector, infrastructure projects, agribusiness, and light industry. Of the 17 investment projects with EBRD participation, reconstruction of the Chisinau International Airport is considered so far to be EBRD's most successful project in Moldova. Completed in little over one year, the new airport facilities, which opened to visitors in June 2000, attracted USD 9 million of EBRD loans for a term of 12 years under 7 percent per annum. EBRD's budget for Moldova in the calendar 2000 amounts to Euros 25 million.

The EBRD's strategy is to further promote the transition process in Moldova by focusing on the following objectives: promoting private sector investment, with a particular emphasis on the agro-processing sector; supporting the strengthening of the local financial sector; financing critical infrastructure investment; and pursuing an active implementation of the existing portfolio. The level of technical cooperation has increased, reaching Ecu 7.1 million for 26 projects by the end of 1998. This is mainly related to project preparation or implementation.

EBRD activity in Moldova's financial sector: In the financial sector, the EBRD has focused on the establishment of effective financial inter- mediation mechanisms to reach small and medium- sized enterprises (SME) and to respond to current investment requirements. SME credit lines for five Moldovan banks are fully operational and have significantly improved the bank's ability to support the growth of the private sector.

Micro-enterprise loans: In september 1996, the EBRD, in cooperation with the Swiss and American Governments, established the Swiss-American micro-enterprise program to give Moldovan start-up enterprises easier access to bank finance, especially for very

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small loans. The program's objective is to extend USD 5 million to a number of Moldovan banks, which in turn will provide credits of up to USD 20 thousand in foreign and local currency to small Moldovan businesses, generally defined as those employing 20 people or less. Initially, micro-enterprise funds were made available to Victoriabank, Mobias Bank, Agroindbank, and Universalbank commercial banks of Moldova.

Infrastructure projects: In 1996, EBRD signed a USD 19 million financing package for Terminal S.A., a Moldovan joint venture between state oil company Tirez-Petrol and a Greek joint-venture company Technovax SA, for construction of an oil terminal on the Danube river in southern Moldova. The road upgrading project, signed in 1995, contributed to strengthening of the road sector financing. The EBRD is also assisting the Moldovan Government in the privatization and modernization of the state-owned telecommunications company Moldtelecom through the provision of advisory services.

Two major projects in the public sector and infrastructure are part of the EBRD pipeline for Moldova. They include an energy project to improve the Chisinau city's heating system, and a water and waste water rehabilitation program. Also, EBRD announced plans to become an equity investor in several energy sector enterprises and Moldtelecom.

3. Western NIS Enterprise Fund

The Western NIS Enterprise Fund (WESTNIS), capitalized with USD 150 million by the U.S. Government, invests in private companies in the NIS region. The fund has been fully operational in Moldova since June 1995. The fund generally provides equity capital and loans in amounts between USD 750 thousand and USD 7.5 million to small and medium-sized private enterprises. The small business loan fund, a separate fund managed by WESTNIS, makes commercial loans under USD 100 thousand to small businesses and entrepreneurs.

In early 1997, WESTNIS funded Roua Univers, a Moldovan company which started providing custom farm services to agricultural businesses, primarily in the central and southern part of Moldova. WESTNIS has 50 percent of the company's equity and purchased Massey Ferguson combines for harvesting peas, barley, wheat, soy, beans, sunflower, and corn, as well as bailer for straw. The company became an exclusive distributor of Massey Ferguson and a dealership and service center of Massey Ferguson equipment in Moldova. Total company capitalization is USD 2.8 million.

In 1998, WESTNIS purchased 25 percent of equity worth USD 4.8 million in the glass container company (GCC), a Moldovan manufacturer of green glass packaging serving the wine and champagne industries of Moldova and neighboring countries. The fund also now owns 85.59 percent of stock worth in Vitanta, a dominant producer of beer, flavored alcoholic beverages, and soft drinks in Moldova.

Along with equity financing, WESTNIS also provides technical assistance for its credits beneficiaries. Its funds provide computer equipment, software, and its consultants to

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assist recipients in finance and business management, marketing, and project implementation.

WESTNIS is currently considering investments between USD 100,000 to USD 5 million in information technology (IT) projects. This move is largely a recognition of the important IT capabilities that reside with local firms and specialists and these firms' competitive potential which is at par with that of many Western firms.

4. Other Sources of Financing

-- OPIC, TDA, EXIM and other agencies are described in the investment climate statement submitted by post (see Chapter VII).

-- A potential source of financing is the Black Sea Trade and Development Bank, of which Moldova is a founding member. Established in 1998, the Bank is capitalized at approximately USD 1.35 billion. The bank provides funds for projects and trade financing. Also, it accepts proposals from public, private and non-profit sector entities, including companies, financial institutions, Government and non-Government agencies.

-- The Turkish Export-Import Bank became active in Moldova in 1998, when it approved a USD 15 million loan for the water supply project in the southern districts of Moldova. The credit was granted for 7 years with a three-year grace period.

-- Since becoming independent, Moldova has received a total of Ecu 65.5 million under a technical assistance program called TACIS funded by the European Union. The latest TACIS programs focus on agriculture and food distribution, private sector development, human resource development (including the social sector), and privatization assistance. In addition, small projects will continue to provide assistance in areas such as policy advice, management training, customs and statistics.

-- Since its independence, Moldova has signed a bilateral agreement for financial assistance with the following countries: Canada, Denmark, Germany, Italy, Japan, Kuwait, Norway, Sweden, China, Turkey, United Kingdom, and the United States.

Chapter IX: Business Travel

A. Business Customs

Moldovans are famous for their hospitality and usually offer food and beverages at business meetings. It is considered an offense if a guest refuses food or beverage the first time it is offered.

B. Travel Advisory and Visas

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Moldova's capital, Chisinau, offers adequate hotels and restaurants, but tourist and business facilities in other parts of the country are not highly developed, and many of the goods and services taken for granted in other countries are not yet available.

Visas are required of American citizens traveling to (or transiting) Moldova. All visas must be obtained in advance of arrival from a Moldovan embassy or consulate. Only those U.S. citizens who can provide evidence that they reside in a country in which Moldova has no embassy or consulate are permitted to obtain a tourist/business visa at the Chisinau Airport. No invitation is necessary. Any person applying for a visa for a stay of more than three months must present a certificate showing that the individual is HIV negative. Only tests performed at designated clinics in Moldova are accepted. A one-entry visa, valid for a one-month stay, costs USD 45. Travelers on official passports can obtain a visa free of charge. For more information on entry requirements, please contact the Moldovan Embassy, 2101 S Street N.W., Washington, D.C. 20008, telephone: (202) 667-1131, fax: (202) 667-1204.

Travelers entering the Transnistria region of Moldova should be prepared for frequent checkpoints. Regular consulate protective services are very difficult to provide in this region in the case of arrests or imprisonment of Americans.

Flying to Moldova from the United States is easy via Amsterdam (Holland), Frankfurt (Germany), Budapest (Hungary), and Vienna (Austria). These cities have direct flights to Chisinau, Moldova.

Additional information on travel to Moldova and the rest of the region is available on the State Department's web page at <http://www.travel.state.gov>.

C. Holidays

There are 9 national holidays in Moldova. New Year's day (January 1), Christmas (January 7 and 8), International Women's Day (March 8), two days of Easter determined by the Orthodox Church's calendar, Memorial Day (the first Monday a week after Easter), Victory Day (May 9), National Day (August 27) and Our Language Day (August 31) are celebrated in Moldova. Most businesses and all state institutions are closed on these days. The basic infrastructure institutions like airports and markets usually stay open.

D. Temporary Entry of Goods

There are few restrictions on bringing computer equipment, exhibit materials, or goods for personal use while traveling to Moldova. The quantity of goods should not exceed the number stipulated in the 2000 Budget Law, which is usually no more than several pieces of each product. If the number of goods does exceed the limit and there is no document confirming the marketing purpose of the goods, then a customs tariff and a customs tax will be applied.

E. U.S. Embassy Contact Information

U.S. Embassy, Chisinau

Ambassador: Mr. Rudolf Perina

Consular/Commercial Officer: Mr. Michael Sears

BISNIS Representative: Mr. Veaceslav Dodonu (bisnis@mdl.net)

U.S. Mailing address:

Department of State

7080 Chisinau Place

Washington, DC 20521-7080

Local address:

U.S. Embassy

Strada Mateevici 103

Chisinau, MD-2009, Moldova

Tel: +373-(2)-23-37-72

Fax: +373-(2)-23-30-44

Chapter X Economic and Trade Statistics

A. Domestic Economy

	1998	1999	2000 (forecast)
- GDP, million USD	1,890	1,162	1,223
- Real GDP growth, percent	(6.5)	(4.4)	n/a
- GDP per capita, USD	523	414	n/a
- Government Spending, As a percent of GDP	33.2	28.2	26.26
- Inflation, percent	18.2	43.8	28.00
- Foreign Exchange Reserves, USD million, year-end	141.5	180.5	n/a
- Average Exchange Rate, ML per 1.00 USD	5.38	10.51	13.00
- Debt Service Ratio, percent	20.16	22.43	n/a
- U.S. Economic Assistance, Million USD	27.1	33.4	n/a

Sources: Moldovan Department of Statistics; IMF; Ministry of Economy; TACIS Economic Trends; USAID-Moldova; Budget Law 2000.

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B. Trade statistics

	1998	1999	2000 (estimate)
Total Country Exports	632.1	471.4	n/a
Total Country Imports	1023.7	567.9	n/a
U.S. Exports	20.6	10.6	n/a
U.S. Imports	109.3	88.9	n/a

Sources: TACIS Economic Trends; U.S. Census Bureau
Chapter XI U.S. and Country Contacts

A. U.S. Contacts

Moldovan Embassy in Washington
2101 S. Street, N.W.
Washington, D.C. 20008 Usa
Tel.: (202) 667 1130/31/37
Fax: (202) 667 1204
Email: Moldova@dgs.dgsys.com
Contact: H.E. Ceslav Ciobanu, Ambassador

Business Information Service for the New Independent States, Washington headquarters
USA Trade Center
Suite 800-Mezzanine Level
1300 Pennsylvania Avenue, NW
Washington, DC 20004
Contact: Mr. Derek Nowek, International Trade Specialist covering Moldova
Email: Derek_Nowek@ita.doc.gov
Tel.: (202) 482-4522
Fax: (202) 482-2293

B. Moldovan Government Ministries and Agencies

Department of Privatization and State Property Administration
Address: str. Pushkin 26, Md-2012 Chisinau, Moldova
Tel.: +3732/ 234350
Fax: +3732/ 234336
Email: privatization@mop.mldnet.com
Website: www.privatization.md
Contact: Mr. Nicolae Gumenai, Director

Ministry of Economy and Economic Reforms
Address: Piata Marii Adunari Nationale 1, bir. 245
Tel.: +3732/ 237448, 237743

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Fax: +3732/ 234064

Contact: Mr. Andrei Cucu, Minister and Vice Prime Minister

Ministry of Industry and Energy

Address: bd. Stefan cel Mare 69, MD-2001 Chisinau, Moldova

Tel: +3732/ 278059

Fax: +3732/ 278000

Contact: Mr. Ion Lesanu, Minister

Ministry of Transportation and Communications

Address: bd. Stefan cel Mare 134, Chisinau

Tel.: +3732/ 221001

Fax: +3732/ 241553

Contact: Mr. Afanasie Smochin, Minister

Ministry of Agriculture and Food Processing

Address: Republica Moldova, MD - 2004, m. Chisinau, bd. Stefan cel Mare 162.

Tel.: +3732/ 233427, 248150

Fax: +3732/ 237731

Contact: Mr. Ion Russu, Minister

Department of Energy and Fuel Resources

Address: str. Vasile Alecsandri 78, Chisinau, Moldova

Tel: +3732/ 213000

Fax: +3732/ 222264

Contact person: Mr. Valeriu Stavinski, Chief of Department and Vice Minister of Industry

National Energy Regulatory Agency

Address: str. Columna 101, MD-2012, Chisinau, Moldova

Tel: +3732/ 212385, 541384

Fax: +3732/ 540534

Email: asaracut@anre.moldpac.md

Contact person: Mr. Anatol Saracuta, Director; Mr. Veaceslav Chilat, Deputy Director

Moldovan State Registration Chamber (for business registration)

Address: bd. Stefan cel Mare 73, room 184, Chisinau, Moldova,

Tel.: +3732/ 277497,

Contact: Mr. Arcadii Cojocaru, Chief Of Unit For Registration Of Companies With Foreign Capital

Moldovastandard (product certification and standards authority)

Address: str. E. Coca nr. 28, Md-2064, Chisinau, Moldova

Tel.: +3732/ 748588

Fax: +3732/ 750581

Department of Customs Control
Address: str. Columna 65, Chisinau, Moldova
Tel.: +3732/ 549460
Fax: +3732/ 263061

National Public Procurement Agency
Str. Piata Marii Adunari Nationale, 1, biroul 373
Chisinau, Moldova
Tel.: +3732/ 234135, 234280
Fax: +3732/ 234055
Email: anap@Moldova.md

National Investment Promotion Agency
Address: Piata Marii Adunari Nationale 1, Chisinau, Moldova
Tel.: +3732/ 232467
Fax: +3732/ 233197
Email: investag@Moldova.md

Department of Statistics
Address: bd. Stefan cel Mare, 124, Chisinau, Moldova
Tel.: +3732/ 542114, 542115, 233772
Fax: +3732/ 233044
Contact: Ms. Eugenia Mihailov, Director

C. International Financing Organizations

Black Sea Trade and Development Bank
Address: 1, Komnion str., 54624, Thessaloniki, Greece.
Tel. No: (30 31) 290-400
Fax no: (30 31) 221-796 or 286-590
Email: info@bstdb.gr
Website: www.bstdb.gr

International Monetary Fund -- resident mission
Address: Chisinau, Md-2033, Piata Marii Adunari Nationale, 1, room 105
Tel +3732/ 23-32-32

World Bank -- resident mission
Address: Chisinau, MD-2012, str. Sciusev 76/6
Tel.: +3732/ 23-27-37, 23-70-65
Fax: +3732/ 23-70-53

European Bank For Reconstruction and Development – resident office

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Address: room 309, 98, str. 31 August 1989, Chisinau MD-2012, Moldova

Tel.: +3732/ 248414, 249810

Fax: +3732/ 249363

D. Trade Show Organizers

Poliproject Exhibitions Ltd.

Tel. +3732/ 243118, 222070

Fax + 3732/ 243118, 222070

Email: info@poliproject.md

Website: www.poliproject.md

Contact: Mr. Arcadie Andronic, Director General

Moldexpo S.A.

Address: str. Ghiocelilor 1, MD-2008 Chisinau, Republic of Moldova

Tel +3732/ 74 74 19

Fax +3732/ 74 74 20

Email: moldexpo@ch.moldpac.md

Contact person: Ms. Natalia Ciocan, Director

E. Moldovan Business Multipliers

Chamber of Commerce and Industry of the Republic of Moldova

Address: mun. Chisinau, str. Mihai Eminescu 28

Tel. (3732) 22 15 52 (multilingual support)

Fax (3732) 24 14 53

Email: president@chamber.md

President: Mr. Cucu Gheorghe

Vice-presidents: Mr. Coica Anatolii, Mr. Josan Gheorghe

The Professional Accountants' And Auditors' Association Of Moldova

Address: mun. Chisinau, bd. Stefan cel Mare 67

Tel: (3732) 271713,

Fax: (3732) 272602

Email: acap@moldnet.md

Website: http:\\ www.acap.ngo.moldnet.md

Executive director: Ms. Svetlana Ikizli

Association of Commercial Banks Of The Republic Of Moldova

Address: mun. Chisinau, Banulescu Bodoni 57/1, MD-2006

Tel: (3732) 23-22-26

Fax (3732) 24-54-16

President: Mr. Valeriu Chitan

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Association of National Goods Producers

Tel (3732) 24-67-85

Fax: (3732) 24-67-85

Description: comprises over 280 manufacturers

Director: Mr. Ciugureanu

F. Business Registration And Representation Services

KPMG Moldova S.R.L.

Tel.: +3732/ 500250, 500251, 543982

Fax: +3732/ 540499

Email: kpmg@kpmg.md

Str. Ismail, 33, 6th floor, md-2001, chisinau

Contact: Mrs. Irina Buceatchi, Director

Pricewaterhousecoopers Audit and Accountants S.R.L.

Tel: +3732/ 234622, 234620, 238122

Fax: +3732/ 238120

Str. M. Cibotari, #37, Chisinau, Moldova

Mr. Warner Matthee, Manager

Turcan & Turcan

Address: str.Bucuresti 67

Chisinau, MD-2012 Moldova

Tel.: +3732/ 212031

Email: acturcan@valex.md

G. Advertising services

Grey SRL

Address: str. Bucuresti 67 a, Chisinau MD-2012 Moldova

Tel: +3732/ 22-45-17

Tel/fax +3732/ 21-36-17

Email: cr@grey.dnt.md; sveta@grey.dnt.md

Contact: Mr. Corneliu Ranga, Manager

Media Pro

Address: MD-2004, Moldova, Chisinau, bd. Stefan cel Mare 162, et. 17

Tel. +3732/ 213646

Fax +3732/ 246860

Email: protv@dnt.md

Contact: Mr. Catalin Giosan, Director

Sun Inform S.R.L.

Address: Md-2005, Moldova, m.Chisinau bd. Renasterii, 13, 214

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Tel: +373-2/ 242431

Fax: +373-2/ 225628

Contact: Mr. Sergiu V. Lavrinenco, Director

Chapter XII Market Research

Power Sector, December 1999

Advertising Market, April 2000

Business Registration, March 2000

These reports are available on-line at www.bisnis.doc.gov (select Country Reports/Western NIS)

Chapter XIII Trade Event Schedule

Event: Beauty; cosmetics, perfumery, beauty shop and hairdresser's equipment and accessories, etc.

Date: February 10 – 14, 2001

Organized by: Moldexpo

Tel.: +3732/ 74 74 19

Fax: +3732/ 74 74 20

Email: moldexpo@ch.moldpac.md

Event: Vinmoldova, 10th international wine exhibition

Date: February 14-17, 2001

Organized by: Poliproject Exhibitions Ltd.

Tel.: +3732/ 243118

Fax: +3732/ 222070

Email: info@poliproject.mdWebsite: www.poliproject.md

Event: Sports. Leisure. Tourism

Date: February 22 – 25, 2001

Organized by: Moldexpo

Tel.: +3732/ 74 74 19

Fax: +3732/ 74 74 20

Email: moldexpo@ch.moldpac.md

Event: Martisor, 6th international consumer goods exhibition, with focus on women goods

Date: March 1-7, 2001

Organized by: Poliproject Exhibitions Ltd.

Tel.: +3732/ 243118

Fax: +3732/ 222070

Email: info@poliproject.md

Event: Small Business
Date: March 14 – 18, 2001
Organized by: Moldexpo
Tel.: +3732/ 74 74 19
Fax: +3732/ 74 74 20
Email: moldexpo@ch.moldpac.md

Event: Moldconstruct; construction, architecture, equipment
Date: March 28 – April 1, 2001
Organized by: Moldexpo
Tel.: +3732/ 74 74 19
Fax: +3732/ 74 74 20
Email: moldexpo@ch.moldpac.md

Event: Moldenergy energy and environmental products
Date: March 28 – April 1, 2001
Organized by: Moldexpo
Tel.: +3732/ 74 74 19
Fax: + 3732/ 74 74 20
Email: moldexpo@ch.moldpac.md

Event: Cominfo, 9th international information technology exhibition
Date: April 4-7, 2001
Organized by: Poliproject Exhibitions Ltd.
Tel.: +3732/ 243118
Fax: +3732/ 222070
Email: info@poliproject.md

Event: Food & Packaging
Date: May 16 – 20, 2001
Organized by: Moldexpo
Tel.: +3732/ 74 74 19
Fax: +3732/ 74 74 20
Email: moldexpo@ch.moldpac.md

Event: Food & Packaging
Date: may 16 – 20, 2001
Organized by: Moldexpo
Tel.: +3732/ 74 74 19
Fax: +3732/ 74 74 20
Email: moldexpo@ch.moldpac.md

Event: Holiday. Vacation services
Date: May 31 – June 3, 2001

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Organized by: Moldexpo

Tel.: +3732/ 74 74 19

Fax: +3732/ 74 74 20

Email: moldexpo@ch.moldpac.md

Event: Moldmedizin & Molddent. General medical and dental products.

Date: September 11 – 14, 2001

Organized by: Moldexpo

Tel.: +3732/ 74 74 19

Fax: +3732/ 74 74 20

Email: moldexpo@ch.moldpac.md

Event: Automarket, 5th international vehicle and accessories exhibition

Date: October 2-7, 2001

Organized by: Poliproject Exhibitions Ltd.

Tel.: +3732/ 243118

Fax: +3732/ 222070

Email: info@poliproject.md

Event: Industry of Moldova

Date: October 3 – 7, 2001

Organized by: Moldexpo

Tel.: +3732/ 74 74 19

Fax: +3732/ 74 74 20

Email: moldexpo@ch.moldpac.md

Event: Moldagrotech. Farming equipment and products

Date: October 24 – 28, 2001

Organized by: Moldexpo

Tel.: +3732/ 74 74 19

Fax: +3732/ 74 74 20

Email: moldexpo@ch.moldpac.md

Event: Moldeco. Ecology and ecological products

Date: October 24 – 28, 2001

Organized by: Moldexpo

Tel.: +3732/ 74 74 19

Fax: +3732/ 74 74 20

Email: moldexpo@ch.moldpac.md

Event: Interior, 6th international furniture and construction materials exhibition

Date: November 7-10, 2001

Organized by: poliproject exhibitions ltd.

Tel.: +3732/ 243118

Fax: +3732/ 222070

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Email: info@poliproject.md

Event: Household Appliances, 6th international household appliances exhibition

Date: November 7-10, 2001

Organized by: Poliproject Exhibitions Ltd.

Tel.: +3732/ 243118

Fax: +3732/ 222070

Email: info@poliproject.md

Event: Infoinvent. Inventions and trade in intellectual property

Date: November 21 – 25, 2001

Organized by: Moldexpo

Tel.: +3732/ 74 74 19

Fax: +3732/ 74 74 20

Email: moldexpo@ch.moldpac.md

Event: Security. Products and services

Date: November 21 – 25, 2001

Organized by: Moldexpo

Tel.: +3732/ 74 74 19

Fax: +3732/ 74 74 20

Email: moldexpo@ch.moldpac.md

Event: Supermarket, 9th international consumer goods exhibition

Date: December 25-30, 2001

Organized by: Poliproject Exhibitions Ltd.

Tel.: +3732/ 243118

Fax: +3732/ 222070

Email: info@poliproject.md